

[Senate Hearing 108-]  
[From the U.S. Government Printing Office]

DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED  
AGENCIES APPROPRIATIONS FOR 2004

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Thursday, March 6, 2003.

DEPARTMENT OF COMMERCE

WITNESSES

HON. DONALD L. EVANS, SECRETARY OF COMMERCE

Mr. Wolf. Mr. Secretary, there are other subcommittees meeting.

The subcommittee is pleased to welcome the Secretary of Commerce, Don Evans to testify on behalf of the Department's fiscal year 2004 budget request.

The Department of Commerce's budget request includes 5.8 billion for this year, an increase of 1 percent over the fiscal year 2003 appropriation.

This is your third time appearing before our committee, and we certainly want to hear your views on a number of issues, and let me just say personally I appreciate the good job you are doing, and the difficulty that the Administration is facing in these days of war, with the potential war with Iraq, terrorism, and the economy.

And it is like Esther to be here for a time like this. This is a very difficult time. So we appreciate your service and others in the Administration on these really very, very tough, tough issues.

Before we hear your opening statement we would like to take a few minutes to welcome back to the subcommittee--they are not here because they are at other subcommittees--but Congressman Martin Sabo has joined this committee, who was the ranking member when I was the chairman of the Transportation Appropriations Subcommittee. Also Congressman Mark Kirk, who I know wants to be here today. And with that, I guess, we will just submit the rest of the statements for the record. And I recognize Mr. Serrano for an opening statement.

Mr. Serrano. Thank you, Mr. Chairman. Let me first take a second here to publicly thank you for your treatment of me personally, the members of this subcommittee and my staff during the very last year difficult appropriations process. And you were very kind and as always a gentleman, and I want to publicly state that.

Mr. Secretary, welcome back to our subcommittee. It is always a pleasure to see you. I want to thank you also, because every time you show up we get a big room. So I appreciate that.

Mr. Secretary, 2 days ago you were at the White House to

announce the launching of a Digital Freedom Initiative. The goal of the new initiative is to promote economic growth in the developing world by transferring the benefits of information and communications technology to entrepreneurs and small businesses in Senegal and other developing nations. I applaud this new effort.

But I am also concerned that we are not offering the same opportunities to bridge the digital divide in our own country. I am concerned we are not doing enough to ensure that our own minorities and small businesses enjoy the economic growth and prosperity we are all trying to foster.

Once again, you propose to end the Technology Opportunity Program. Once again you propose to phase out the Manufacturing Extension Partnership Program that has helped so many small U.S. Manufacturers. And for the first time you recommend suspending public television digital conversion grants from the National Telecommunications and Information Administration. I understand there is a proposal elsewhere in the budget to provide such grants, but only by taking 20 percent of the funds already appropriated to produce and acquire public television shows.

I believe, I certainly hope, Congress does not have the appetite to take that big a bite out of Big Bird. But I do not want to focus on the negative today. There is so much good you and the Department are doing in general in a vast array of activities.

And the Department's importance is also evident in my district and my city with the Bronx River Restoration Project, the Hunts Point Weather Station, which is a very, very exiting project, and the investigation into the collapse of the World Trade Center Towers to name just a few.

So, again, while there are some concerns I have, I also commend you and the Department for a wonderful job during a very difficult time. I thank you and look forward to your testimony.

Mr. Wolf. Mr. Secretary, your full statement will appear in the record. But you can read the entire statement or summarize it, do as you see appropriate.

[The information follows:]

[Clerk's Note.--It is noted that the witness and Representative Sweeney and Representative Kirk referred to programmatic increases from the Fiscal Year 2003 President's Request to the Fiscal Year 2004 President's Request. The Chairman and the other Members of the Committee referred to programmatic increases from the Fiscal Year 2003 Appropriation to the Fiscal year 2004 President's Reqeust]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

#### Opening Statement by Secretary Evans

Secretary Evans. Thank you, Mr. Chairman. I am delighted to be back here. This is my third opportunity to be before this outstanding committee. I want to thank you, Mr. Chairman, Mr. Serrano, for the pleasure I have had with working with the two of you and this entire committee over the last several years.

I think that we do continue to make progress, and I want to tell you, along with the entire committee, how much respect I have for all of you that are here committing your time to public service. It is a very noble calling.

As somebody who served 26 years of his life in the private sector, I know something about the private sector, and am learning something now about the public sector. I just want to state for the record how much respect I have for anybody that commits their life to public service and say for the record that it is not only a sacrifice of the individuals that serve, but it is a sacrifice for their spouses and a sacrifice for their families.

So I thank you, all of you, and I would like to read a brief statement into the record.

Mr. Chairman, Mr. Serrano, members of the committee, I am pleased to be here again and to present the President's fiscal year 2004 budget request for the Department of Commerce.

With your permission, I would like to briefly highlight some key components of our budget and submit my written testimony for the record. A vibrant private sector is essential to American jobs and security. 100 years ago Congress created the Department of Commerce to promote American industry and business and economic opportunity for our citizens.

This is the nexus of our diverse programs in trade, technology, entrepreneurship, and environmental stewardship. In developing this budget request, I have carefully followed the President's directive to focus on core priorities.

As you know, making a budget entails difficult decisions. Resources are limited. Choices have to be made. Clearly these troubled times of war and attacks on our way of life demand responsible, targeted spending.

The President's total budget request for the Department of Commerce is \$5.4 billion. This budget provides for the continued funding of key Commerce programs, while focusing resources on four critical priorities: Fostering economic growth, contributing to homeland security, advancing science and technology, and upgrading facilities.

To generate jobs and economic growth, government and business decisionmakers need the best possible economic information. An additional \$5.4 million is requested for the Bureau of Economic Analysis. These funds are required to improve the accuracy and timeliness of GDP and economic accounts data. As you know, two-thirds of the revisions in the last three GDP annual releases were due to a lack of information.

For the Census Bureau which monitors the Nation's social and economic development, we are asking \$9.3 million to increase funding. The money is for improved data collection and methods, the measurement of the important services sector, and continued planning for the 2010 Census.

The President and I are very concerned about the economic security of America's workers. A proposed increase of \$13.8 million for the Economic Development Administration will assist communities severely impacted by plant closures and layoffs.

To meet homeland security needs, the President is requesting an additional \$2.3 million for the Bureau of Industry and Security. The funds will be used to strengthen

export controls on dual-use goods and technologies that would strengthen the military capabilities of our adversaries.

The NOAA budget request includes \$6 million to expand NOAA weather radio to a truly national all-hazard warning network. The funding will allow first responders and emergency managers direct access to the network to transmit all hazards messages. And to further strengthen homeland security, we are requesting \$10.3 million dollars for NIST. As you know, NIST is investigating the collapse of the World Trade Center buildings.

Using lessons learned, we want to help develop new standards for cost effective safety and security of buildings. Additionally the funds will be used to test performance standards for biometric systems used to identify visitors to our country and to test radiation standards.

To support technology innovation and provide for intellectual property protection, the Department is working to eliminate the practice of using USPTO revenues for unrelated Federal programs. Making more fees available sooner will enable the agency to increase the quality of patents and trademarks issued.

Because America's leadership in science and technology has direct impact on our economic and homeland security, we are requesting \$9.2 million for NIST research into such emerging areas as nanotechnology, quantum computing and health care quality assurance.

We also include a \$16.9 million increase for NOAA to study areas of scientific uncertainty in climate, and a 31.8 million increase to modernize fishery management to better this \$50 billion industry.

Mr. Chairman, the scientists, engineers, and support staff in our Commerce laboratories are world class. Unfortunately in some cases the facilities they occupy are not. For example, the NIST facilities in Boulder, Colorado were built in the 1950s under the Eisenhower administration. I have seen them. They lack adequate temperature controls. They suffer power outages and power spikes. All of this is adversely affecting our vital research, which is central to our core mission.

The fiscal year 2004 budget request includes funding to renovate the NIST Boulder facilities and to bolster safety and security in NOAA's facilities and throughout the Department.

As I said earlier, these are troubled, threatening times for our Nation. We have had to make some tough choices affecting some very, very good programs. To enable us to focus on new economic and homeland security needs, this budget phases out funding for the Advanced Technology Program and the Technology Opportunities Program.

It includes funding only for those Manufacturing Extension Partnership Centers in operation for less than 7 years, as the original law specified. It also suspends funding for the public telecommunications facilities planning and construction program.

I know there will not be universal agreement about these choices. There are members of this committee and other Members of Congress who will have different views on priorities and funding. I respect those views and those judgments. I look forward to working with this committee and with you through the budget process on the many issues affecting the Department.

Mr. Chairman, we appreciate the support the committee members have provided for Commerce programs and initiatives in the past. This budget is focused on helping our Nation meet the challenges it faces in these difficult times. I welcome your comments and would be pleased to answer any questions that you have.

Thank you, Mr. Chairman.

Mr. Wolf. Thank you, Mr. Secretary. Before I get into questions, let me recognize now Mr. Kirk and Mr. Sweeney, who are the two members, we mentioned them before, who are now on the committee, and also Congressman Sabo, who was here. I just saw him walk in, but perhaps he had to walk out again.

Mr. Secretary, the overall budget request, as you said, is 5.8 billion for fiscal year 2004, an increase of 1 percent over fiscal year 2003. Yet as you go through this process, there really are a number of problematic reductions used to offset it.

I worked for a Cabinet secretary a number of years ago, and I understand the degree of difficulty with regard to OMB sometimes. But for example, the digital transmission grants for public television are eliminated, a reduction of \$41 million from the fiscal year 2003 appropriation.

Some of the trash on other television, compared to public television, I mean, it is almost impossible as a father of four girls to sit and watch continually the network TV shows from 8 until 11 o'clock at night.

I mean, when I think of the 31 million people starving and dying in Africa of hunger and HIV/AIDS, I think the Administration has an outstanding record on HIV/AIDS in Africa, and on hunger. We are giving 51 percent of all of the food, 51 percent of all of the food worldwide, and our friends in the EU and France and Germany are giving like 21 percent.

When I look at ``The Bachelorette'' and ``Joe Millionaire'' and the garbage. Sometimes, public television may be the only thing that as a dad or as a grandfather you can sit and watch. So I think that becomes a problem.

Advanced technology program grants are eliminated, a reduction of \$180 million. When I go back to that point, when I think of how little coverage the network is giving 30 million people dying of hunger and famine in Ethiopia and places, and then if they would give the same attention to that as they give to ``Joe Millionaire'', we could electrify the world. They would support what this President and this Administration, which frankly I guess you really haven't told the story of how good this Administration has been on the issue of HIV/AIDS and the hunger in Africa.

Only by me digging did I find out that 51 percent of all of the food that is given to poor people around the world is coming from the United States. No where did I see, until I found the figures, how little the French are doing. No where did I see how little the Germans are doing. No where until I dig did I find out how little the Italians are doing.

The Manufacturing Extension Partnership, MEP Program, is eliminated, reduction of \$94 million; \$97 million rescission to the steel loan guarantee. I know Congressman Regula has been very, very concerned with regard to that. Economic downturns in the United States manufacturing and our high tech sector, my

area out in Northern Virginia, as you know make these program cuts particularly difficult and perhaps not really appropriate.

The public broadcasters are concerned that the public television stations have not yet completed their transition from analog to digital communications. Yet you proposed to suspend funds for this program.

Further, your budget continues to include a rescission from the steel loan guarantee, and the steel industry is in crisis. We were told, whether it is accurate or not, we will check and see, perhaps you may want to check and submit for the record, that one company that applied for the benefits of this program said they were denied on Monday. Other companies have expressed interest in receiving the benefits. No steel companies are in my Congressional district.

Last year's budget proposal rescission of this program was not enacted. So, overall we estimate that the budget is based upon at least \$331 million in unlikely, and I would have to say, unrealistic offsets.

Given these holes, we are going to have to ask you, you can tell us now, but I think that we have a good working relationship with you and your staff, we are really going to have to know the highest priorities within this request, so as we are putting the budget together, some of these things will not be cut, but we can also make sure that we go and give you the necessary money in the areas that you also think that are priorities.

So what are your comments with regard to that?

Secretary Evans. Well----

Mr. Wolf. Not ``Joe Millionaire'' or ``Survivor'', or if you want to comment on that you can, but on these issues.

Secretary Evans. Well, Mr. Chairman, you bring up several very important issues that I would like to comment on. You mentioned some very worthwhile programs that are not in our 2004 budget, including ATP, Advanced Technology Program, which has had some significant successes in its life over the last 15 years.

The MEP program, Manufacturing Extension Partnership is still going to be funded. However, we are proposing to fund only those partnerships that have been in existence for less than 7 years, which is what the original law said. The law was later changed, and I would acknowledge that. the MEP is a very good program that produced some very good results. In fact, I would submit that the results are so good that I am surprised that the private sector would not be able to pick it up and run the program. With the kind of improvements in productivity that you have seen in some of the small manufacturing companies resulting from this worthwhile program, you would think that there would be a market for someone to offer these kind of services.

Public television conversion, is also a very important program that has been underway for quite some time. About 312 of the 350 stations either have been converted or are in the process of being converted. We did take it out of our budget. We are aware that there are other funds that will continue to allow for the ongoing conversion of these final 38 stations that need to be converted. But certainly all need to be converted. I share your view of the importance of that medium

for our society to have access to it. I am very sensitive to that.

[Clerk's Note.--Subsequent to the hearing, the following information was provided:]

#### Emergency Steel Loan Guarantee Board Approves \$250 Million Loan Guarantee

On March 26, 2003, the Emergency Steel Loan Guarantee Board, acting pursuant to the Emergency Steel Loan Guarantee Act of 1999 (Public Law No. 106-51, Chapter 1), as amended, and the Board's regulations (13 CFR Section 400.1 et seq.), announced that it had unanimously approved, with certain conditions, a guarantee to Royal Bank of Canada with respect to a proposed loan of \$250,000,000 to Wheeling-Pittsburgh Steel Corporation of Wheeling, West Virginia. The Board will guarantee repayment of 88 percent of the principal of the loan. The states of Ohio and West Virginia are also guaranteeing repayment of portions of the loan.

#### STEEL LOAN GUARANTEE PROGRAM

Finally, you mentioned the steel industry. I will touch it just quickly. Yes, Wheeling Pittsburgh was denied a loan guarantee this Monday. The industry is going through a very difficult, tough, but constructive, restructuring. You are seeing it throughout the steel industry right now. It was the original intent of the steps taken by the President that there be a brief, limited time period, breathing space as we called it, for the industry to restructure and be competitive on the global market.

I think when it comes to the steel industry, when it comes to all industries, and workers all across America, that it is important that we send a signal to all industry across America, our entire economy, that we are going to fight to make sure there is a level playing field for Americans to compete in the world. The steel industry had been competing against subsidized companies for the last 30 years, and it was time for them to restructure and be competitive. We believe that is what the safeguard has done, provided a little breathing space for them.

But in terms of the denial, Mr. Chairman, I think when it comes to committing the American taxpayer's money, we all know our fiduciary responsibility for doing everything we can to make sure that it is invested wisely. According to the law, the Steel Loan Guarantee Board is an independent board that has a member of the SEC who in fact is a Democratic appointee of the SEC, a member of the Fed, and the Deputy Secretary of Commerce. It was a unanimous ruling that the loan be denied. I can say to you is that there are certain tests that have to be met in order for the application to be approved. I think it is very important that the Commission and the Board respected those tests. I am sure that they did. It was a unanimous decision.

But there are difficult choices, and we are here to make difficult choices on behalf of the American people. And these very worthwhile programs that you mentioned were not included in the 2004 budget, as I said, I know there will be differences of opinion.

You have mentioned working with us as we work through the completion of the 2004 budget, so that we clearly identified our highest priorities to you. We certainly will do that. As always, we have looked forward and have enjoyed working with this committee. And we will make every effort to make ourselves available to you and make every effort to make sure that you clearly understand what our highest priorities are, because I know they won't be exactly the same priorities that this committee would have.

#### U.S. TRADE DEFICIT

Mr. Wolf. Sure, and you have and your people always have. One other question, then I will recognize Mr. Serrano, is the issue of the trade deficit. The United States recorded \$435.2 billion trade deficit for the year 2002, the largest imbalance in history.

For the record, let me just say it is not your fault, it is not the Bush Administration's fault. When these things--it is like an ocean liner moving. So it has been moving for a long while, during the Clinton years, during other years. So there is no reason--I am not trying--this is not an adversarial question. It is just kind of what are we going to do type of thing, because we do have to do something.

The Department of Commerce statistics state that the gap has grown 21 percent since the year 2001. For example, the numbers show a trade deficit with China, \$102 billion, compared with \$84.6 billion a year ago.

Our deficit with Germany was \$34.6 billion, compared to a \$29.6 billion this time last year. Wholesale inflation, which has nearly been nonexistent jumped to 1.6 percent in January, the largest increase in 13 years.

Mainstream economists, and it is hard to get an honest--it is hard to get a symptomatic answer from--depends on who you are asking the questions. But mainstream economists assert that U.S. Trade imbalances, put plainly, are because the United States consumes more than it produces. I mean, at Christmas time you couldn't buy a Christmas ornament celebrating the birth of Jesus, and they are made in China, which is about so far away from the concepts of and the way they treat their people, 14 Catholic bishops in jail, evangelical house churches rolled on a constant basis. And so there is some inconsistency when we see that.

But mainstream economists say the manufacturing sector makes up one-fifth of our economy. What are the long-term impacts? And I had a report by the Library of Congress, I will just read it. It says, the U.S. Trade deficit has risen more or less steadily since 1992. This imbalance is estimated to reach about 512 billion in the year 2002, an increase of nearly \$120 billion over the 2001 deficit, and a rise of about \$470 billion since 1992, showing this is a problem that we have had in the 1990s as well as today. It says U.S. Trade deficits do impose burdens on trade sensitive sectors of the economy. One other thing it says, and then I will let you comment, is it is unlikely that the deficit will shrink any time soon. In fact, most projections out over the next 1 to 2 years see a further widening. Nevertheless a rapidly increasing trade deficit is



not likely to be a phenomenon that is sustainable indefinitely.

And then there was one other comment, which I won't go into, but where they say that there are some potential problems here. And I just wonder how do you see it, how as Secretary of Commerce, and what can we do to deal with it? My sense is for a period of time--and when you look at the numbers, and we will submit them for the record and I will give you a copy of the study--there was a period of time we actually had a trade surplus. Now, always having a trade surplus is not always necessary at all times. Germany has a trade surplus and their economy is in the tank, 9, 10 percent unemployment. But overall, my blue collar background tells me we cannot continually import more on a constant basis over a long, long period of time with that trend continuing to rise more than we are exporting. It is a question of jobs, it is a question of control over our economy.

So, one, your thoughts about it, and, two, if you have any ideas of what the Congress might do or the Congress working with the administration might do. We are going to have some other questions about your trade people and other things like that later on.

#### U.S. TRADE DEFICIT

Secretary Evans. Sure. Chairman, it is a very important question. Let me give you some of my broad thoughts. The first thought is, as you mentioned, the rest of the world is not doing particularly well in terms of economic growth. You find a spot or two, one of them might be China. But beyond that it is hard to find other areas, other regions of the world that are really growing. Japan has clearly been flat for well over a decade now.

The European countries are basically flat, or experiencing very modest growth. So the U.S. Economy is driving the global economy. We are a third of the global economy right now. Since 1992, that has been true. As I traveled around the world, people marveled at the American economy. How have you been able to generate 20 million jobs in the 1980s. You generated 20 million jobs in the 1990s? They marvel at the American economy and its ability to continue to grow, continue to expand, and continue to create jobs.

And what we need to do is continue to not only lead the world in economic growth, but help the world create their own economic growth environment so the rest of the world grows and we don't become the only engine of a global economy. The answer to the concerns that we all have, is to lead this world to of peace and lift it up out of poverty. I always think, Mr. Chairman, there are 6 billion people that live on the planet. There are 3 billion that live on less than \$2 a day. That doesn't work. There is too much poverty in this world. And so what you think about is how can we create the global conditions for economic growth, take some of the pressure off the United States to continue to drive this global economy. We need to continue and we will continue to make sure that our economy is growing at its full potential.

But the reason we are seeing this growing deficit right now is because the rest of the global economy is not performing. And so now the flip side of a deficit, of course, Mr. Chairman,

is it means that inflation is in check. And it means that families across America are buying goods and services, needs for their children, needs for their families at lower prices than they might otherwise have had to pay for them.

It also means, since you have inflation in check, you are able to pursue some pro-growth monetary policies and some pro-growth fiscal policies. Obviously, we have some pro-growth monetary policies in place right now, which is healthy for our economy. With interest rates at 41-year lows, and household ownership at historic highs, you have the American dream being realized by more people than ever.

So there are some pluses to a deficit in terms of continuing to keep inflation in check. And another point, Mr. Chairman, that is important to make is the global economy is indeed becoming more integrated and more interlinked and more interrelated. There are more multinational ownerships in the world. In fact, if you look at the imports that come into the United States, 50 percent of them are going from one company to the subsidiary of a company in a foreign country that has a subsidiary here in the United States.

And then when you also look at the imports of goods coming to the U.S., about 30 percent winds up being converted into some kind of export. And so you have imports coming in that are placed as part of an export that gets exported back out of this country. So you are going to see this continuing integration and interlinking and networking of a global economy, and it should lead to a more efficient global economy.

It just so happens that right now we are the only economy in the world of size that is growing, and so it puts pressure on the U.S. because we will see more and more imports coming in, we need to encourage other countries to create the conditions for economic growth.

That is what we do when we travel around the world and talk to our colleagues, whether it be in Japan or the EU, or wherever it may be. You really need to get some pro-growth economic policies in place to play a role in growing this global economy so we can help lift this world up out of poverty--that is the goal.

One other final point that has to be acknowledged at this point is that the growing deficit, in part, is not only related to energy prices, but also energy volumes. We are becoming more and more dependent every day on foreign sources of energy, including not only oil but natural gas as well. And so that is a growing component of the trade deficit that we are now experiencing.

Mr. Wolf. Well, I appreciate that. Maybe we can chat about it some other time. But when you look at the numbers, and I am for opening up ANWR. I voted to do that so we have more domestic production here. But when you look at it from 1960, 1960 we had a \$4.6 billion trade surplus. Then you go to 1990, it was \$102 billion deficit. 1991, \$65 billion deficit. 1992, \$84 billion deficit. 1993, \$115 billion deficit. 1994, \$150 billion deficit. 1995, \$158 billion deficit. 1996, \$170 billion deficit. 1997, \$180 billion deficit. 1998, \$229 billion deficit. 1999, \$328 billion deficit. 2000, \$431 billion deficit. 2001, \$411 billion deficit. 2002, \$470 billion.

That if it were happening over a period of years, I don't

think there is anything magic about always having a surplus, I would rather have a surplus, but you have commercial attache offices who are out there who are encouraging our people to export. So there is some--that is important. But when I see it over a long term it just doesn't seem to be turning the corner.

Let me just recognize Mr. Serrano.

#### WORLD TRADE CENTER STUDY

Mr. Serrano. Thank you, Mr. Chairman.

Mr. Secretary, the collapse of the World Trade Center Towers was the worst building disaster in human history. Immediately after September 11th, the Commerce Department was involved in the recovery and investigation. NOAA, as you know, took the first--NOAA planes took the first aerial photographs, and the National Institute of Standards and Technology Buildings and Fire Research promptly started working on understanding what happened and what we should change in the way we design tall buildings.

Now, there was money in the 2002 supplemental for this study. There were additional dollars in 2003, and I know that you have a request, which I am sure this committee will look with support on for this coming year.

How is that investigation going? And, most importantly, at this time, since there are already designs being considered very seriously in New York City for the new structure, how involved are you with the City in planning what these buildings should look like in terms of the condition that they would face from another attack, hopefully not but that could happen? And how involved are they with you? Are they reaching out through your study to find out what went wrong and what can be taken care of?

Secretary Evans. Well, I know we have had good access to all of the data that we have needed, and so I would say that we have felt good cooperation with all departments, all agencies, including the City with respect to gathering the information required to conclude a study. The study is ongoing, not completed yet.

I had a brief discussion about it just within the last couple of weeks. The Assistant Secretary at NIST is pleased with the performance to date and is looking forward to the final conclusion of the report. Don't have the specific time right now when that will be, but we are talking to and working with the city officials, the planners. Yes, we are.

Mr. Serrano. When do you think that study would be complete?

Secretary Evans. The study commenced in August 2002, and is expected to take 24 months.

Mr. Serrano. Well, perhaps we should wait for the study to be complete. But the big argument in New York now is do we build a memorial with a few office buildings, do we not shy away from what could happen in the future and sort of with great--not arrogance, but with great desire build tall structures again?

Do you think, even as they begin to plan prior to the study being in place, that you folks should be looking over their shoulders?

Secretary Evans. We ought to be talking to them certainly. They would want to have the information that we have collected and the tests and analysis that have been run, the conclusions that have been reached. That is the purpose of the study, to provide contractors, architects, designers of these the kind of structures some guidelines as to kind of considerations that they should have in future building. I mean, that is the reason to go spend the \$16 million that is being spent on the study.

I think we will have more definitive information by the end of the summer, but completion of the study is going to take a while longer. It is going to be ongoing until about August 2004. But should they be actively communicating with those that are building or are involved in the design of the future structures? I would say absolutely.

Mr. Serrano. Well, you know, at the expense of opening a dangerous door, our elected officials usually don't want the Federal Government meddling in local affairs. On this one, I invite you to make sure that if they begin to move fast, without having the information that I think they need in place, please feel free to tell them, you know, to hold that a second to discuss things with you, because we want to make sure that that structure, those structures get built properly.

Secretary Evans. As I mentioned, the full cycle of the study is about 2 years, and we have been going for about a year. So I know we have more milestones coming up this summer. But that is not to say that there is not some valuable kind of information that can be used now in terms of the construction and design of future buildings.

Mr. Serrano. Right. In the area of Manufacturing Extension Program, Advanced Technology Program and the Technology Opportunity Program, it seems that we have to go through something here a couple of years in a row, which makes me wonder what the idea is. You have proposed, once again, that MEP, ATP and TOP should be--you know, they are on the chopping block again. But yet you must know that this committee seems to favor these programs and will work hard to put them back in again. But when you do that, when you folks present a budget to us that makes us then have to pay for these again, you put us in a hole, a hole that does not allow us perhaps to address some new initiatives that you have in place.

So my question to you is, does your Department dislike these programs so much that you continue to present them, you know, a death wish for them every year or, you know, why continue to do that when we are going to put them back?

Secretary Evans. Again, I would say that it is not a matter of disliking the programs. It is a matter of priorities. I want to acknowledge that these are worthwhile programs. I talked to people across the country on college campuses and in communities that are involved in the programs. I have seen some of the results of the programs. I really do think that there ought to be a market opportunity out there for someone to actually provide this to the small manufacturers in some kind of fee for service, or fee for whatever kind of basis.

But no, I understand how the process works, and we have basically not put programs in our budget that were placed back in the budget by Congress. We present to the Congress the President's budget, his priorities, and that is what this

budget is all about, presenting the President's priorities, which basically is saying that this is the Administration's position. In this difficult period that we are managing very tight budgets, MEP, ATP and TOP just didn't make the list.

It is not saying MEP, ATP and TOP not programs. It is not saying they don't have good track records, or haven't delivered a valuable service to American manufacturers and communities. They just do not make the cut right now.

But I understand that we will have differences on these programs. We just have to sit down and work our way through it, give you whatever other kind of advice or other kind of data we can. But I just know we have to work through these together.

Mr. Serrano. Well, maybe there should be an unwritten rule if 3 years in a row that we replace them maybe the fourth year you don't ask them to be cut.

Secretary Evans. Okay.

#### CENSUS BUREAU WORK WITH MINORITY SERVING INSTITUTIONS

Mr. Serrano. Let me ask you one other question before we give some other members some time here. But it is a Census question, but I promise not to ask you about the Suitland, Maryland facility.

The 2003 conference report includes language urging the Census Bureau to continue to work to address concerns about Hispanic subgroup enumeration for the 2010 Census, and recommending that the Bureau take advantage of certain programs to improve the representation of minorities in senior management, and in all areas of research.

How does the Census Bureau plan to address these concerns?

Secretary Evans. Well, we are reaching out to universities all across the country, particularly those that are minority serving institutions, that have a high percentage of minorities at their institutions, seeing if we can make some headway on that front.

I can acknowledge that we still have work to do, but know that we are working on it very diligently and will continue to work on it. We are contacting minority serving institutions and will continue to do so. I am going to look at it again, expand it. I have asked the question a while back, are you going to the University of Texas at El Paso? I know the high percentage of Hispanics that are there at the University of Texas at San Antonio. Texas is a place that has a growing Hispanic population. I think it is a great ground for recruiting individuals that could serve in the Census Bureau very well.

Mr. Serrano. Okay. Thank you, Mr. Chairman.

Mr. Wolf. Mr. Rogers.

Mr. Rogers. Thank you, Mr. Chairman, and, Mr. Secretary, it is good to see you here. Welcome again.

Secretary Evans. Thank you, Hal. Thank you, sir.

Mr. Rogers. We hope that you have every success in your job, because there is success for the rest of us when you succeed. So this subcommittee will try to find ways to be helpful to you as we can. We may disagree with you on a few minor points here and there, but overall you will find support, as have you, on this subcommittee's work.

#### HOMELAND SECURITY RELATED PROGRAMS

I want to ask you briefly about your--in your statement you refer to a funding that is homeland security-related that you are requesting, and I wanted to ask you how this relates to the work of the new Department of Homeland Security, how you will work together with them. For example, you ask an increase of \$13.3 million for NIST to address key national needs for homeland security measurement standards and technologies, saying that that request would strengthen NIST's portfolio of more than a hundred projects that address those needs.

Tell us about that.

Secretary Evans. Well, there are a number of projects that NIST works very closely with Homeland Security on. One is developing the kind of technology that will absolutely identify individuals that are coming into the United States from some other country. For example, it could be some kind of physical mark on an individual that would provide you positive identification for who that individual is.

NIST also is conducting work that would help in the detection of what are called dirty bombs, small nuclear kinds of bombs. So they are using the good science, the good technology that they have in that bureau to see what core kind of technology that we may be able to employ, not only to address individuals coming into the country, but materials that may be coming into the country or are in the country.

Mr. Rogers. Well, that is the reason I asked that. Your budget request for NIST in relation to homeland security items included moneys to develop the measurement infrastructure needed to detect radiological bomb threats, to improve the use of radiation such as x-rays and other imaging techniques to detect concealed threats, to use radiation safely and effectively to destroy biowarfare agents like anthrax, moneys to develop standards and test methods for biometric identification systems, and things of that nature.

Now, the Homeland Security Department will have a research and development arm itself, where I thought this type of thing would be done. Tell me how this would relate to what is being called HARPA, the homeland security version of DOD's DARPA. How will what you are asking for interplay with HARPA?

Secretary Evans. Well, as you said, again the number is about \$13 million; 6 of it relating to the issues that you just brought up. Another 7 of it relates back to Congressman Serrano's subject in terms of the study of the World Trade Center. So there is about \$6 million there that relates to developing technology to detect dirty bombs. It is not being done in HARPA right now because the scientists are in place, the labs are there, the facilities are there.

What the long-term consolidation will look like I am not sure. I think time will tell whether or not those scientists should remain there at NIST or to be moved into Homeland Security.

But in order to get up and going at this moment with the labs that are in place, the tools that are in place, the scientists that are in place, they decided that that was a small thing that ought to be carved out at this point.

Mr. Rogers. Well, that is something that we need to keep an eye on as we go through here. I want it done where it best can

be done, like you do.

#### NOAA ALL HAZARDS WARNING SYSTEM

Secretary Evans. Sure. Absolutely.

Mr. Rogers. Now, also I notice you saying in your statement that you are requesting money for National Weather Service and NOAA, an increase of \$7.7 million, which apparently would be used to change the NOAA weather radio system to what you call an all hazards warning network.

Tell us what you have in mind there.

Secretary Evans. Everybody is going to think that this was a setup, Congressman, but I have one with me.

Mr. Rogers. Well, I assure you this was not setup. I didn't mean to do that.

Secretary Evans. Well, yeah, we can get them. I assure you of that. This is a NOAA weather hazards alert radio, and the idea is that the NOAA weather radio that has been out there for many, many years incorporates into it a new element, which is the element of providing for an all hazards radio that would allow for the messages for Homeland Security to be front-end loaded into this radio. By front-end loaded, I simply mean that Homeland Security will have access to our system so they can quickly get the information out across America.

We think that it will cut the time down from delivering the important information from 7 minutes to 2 minutes, say, to a region in this country, that is a possible terrorism threat in western Colorado, and that would then go into this, what has been a weather radio system now will be called an all hazard system, and get the information quickly across America.

It is the desire that this will be in the hands of first responders, the local police, the local fire, the local officials as well as individuals across America. You can buy this right off the shelf. And so I think it is a great program. We have \$5.5 million of the \$7.7 million increase for Homeland Security activities allocated for that, and it just will give people more advanced warning of any possible threats.

Mr. Rogers. So if a person now owns one of the weather radios in their home, would they need to make any changes in order to receive the new warnings?

Secretary Evans. Don't need to make any changes.

Mr. Rogers. They would automatically then hear warnings from Homeland Security through the weather radio that may be particularly related to where they live.

Secretary Evans. To where they live.

Mr. Rogers. So if there was a threat of anthrax in some portion of a city or a town, you would be able to rifle-shot the warning just to that locality by way of the radio?

Secretary Evans. That is correct. We do it through--we have a series of towers across the country. We cover about 95 percent of the country. And so there is about 5 percent that is not covered. I can't tell you what 5 percent that is.

Mr. Rogers. So suppose there was a national alert of some sort. Would Homeland Security be able to go on the weather radios to the Nation at large with a national warning?

Secretary Evans. Absolutely. Absolutely.

Mr. Rogers. Well, I want to congratulate you. That is a

very interesting piece of information and very, very helpful, and it gets the word out there instantaneously by way of the radio to localities or the Nation as a whole about the particular threat.

Now, will there be anything done on the system to--when we change the color codes of warnings, will there be a warning going out?

Secretary Evans. Congressman, I can't imagine that there won't be. The purpose of the all hazard system is to get emergency information to the American people as quickly as possible. And so I haven't heard someone tell me absolutely, but I can't imagine that there would not be a warning. That is the whole reason for it. RPTS THOMAS

DCMN NORMAN

Mr. Rogers. I want to thank you for that. That is an excellent idea. It utilizes a system that is wonderful in and of itself on weather alerts that can be used now for these other national purposes as well.

Secretary Evans. The other thing I would say to you Congressman, is that this system is very user friendly. You can buy the weather radios at, your local electronics store. And they have also the portable ones that you can carry with you. So if you want to have one on a trip you can have it with you wherever you are.

Mr. Rogers. For those people who may not be familiar with the little weather radio, two of them there that you have, are those available at the regular stores?

Secretary Evans. Right there available at the regular stores. I better not mention any specific stores, I will probably get in trouble, but anyway, any of the local electronics stores.

Mr. Rogers. Do you have an idea of the relative cost?

Secretary Evans. I think about \$40 or \$50.

Mr. Rogers. Well, thank you very much. Wonderful innovation.

Secretary Evans. You bet.

#### PUBLIC TELEVISION ISSUES

Mr. Rogers. I want to ask you briefly--I know my time is running short here--you propose to suspend the public telecommunications facilities planning and construction grants that the Chairman asked you about, reduction of \$41 million during FY04. And I just wanted to reinforce what the Chairman said about some of the junk, what was it, the vast wasteland that we now see on commercial television. CBS in fact is proposing a new Beverly Hill Billies show which would take a poor family from the Appalachian region of the country and set them in a Hollywood setting today and make fun of them. If you did that to any other ethnic group in this Nation or even thought about it, the community of the Nation would condemn you for it.

And I can't for the life of me see how CBS being a responsible major network would have the audacity to begin poking fun at the people that I call constituents. And I live among them, always have. They want to exploit a stereotypical image of those people that existed 50 years ago. But it is no



longer there. It has changed. Our area has progressed and moved. Our people are spirited and they are progressive, and they want to leave behind the old stereotype that had attached to them. And we are making great progress. And it really makes me furious that one of the major networks, using the public airways that we own, wants to denigrate that group of people.

Now, we may want to talk with you about the monies that you want to cut from public television because that is one place where we get fair treatment. And I would hope that CBS would scrap this idiotic idea, this discriminatory idea that defames a group of American citizens. And I want to assure you and everybody else, I will not sit idly by and watch anybody, particularly one using the public airways that this Congress controls, denigrate my people. Do you have any thoughts about that?

Secretary Evans. Well, as I said earlier, I do. I am a big fan of public television as well. I am glad to see that we have made as much progress as we have made in terms of conversion of these public television stations. The program needs to continue. I am pleased to know that it will continue.

The only other thought, Congressman, that comes to my mind about this very important issue that both you and the Chairman have focused on is a recent visit to Africa. I made a wonderful trip to Morocco about 4 months ago. I landed at Casablanca and got in the car and was driving to Rabat, the capital of Morocco. I drove through a number of fairly impoverished villages along the way, and saw a lot of dwellings where obviously people of very, very, very, very low income lived. The one striking thing to me was that on the top of every one of those dwellings was a satellite dish. And they were picking up programs from right here in America.

Mr. Rogers. That is probably not a good sign, Mr. Secretary.

Secretary Evans. I just make that point, because this is the stuff that is being beamed around the world.

Mr. Rogers. I just wondered what you thought about the exploitation of this group of people that CBS is thinking about doing.

Secretary Evans. Well, I would say this--it is pretty simple to me. One of the strengths of America is we treat everybody with respect, dignity, and honor, which is part of the American values that we all cherish in this country. I hope everybody will continue to honor those great American values that we cherish. I hope also that we are able to share those same values with the rest of the world; because I do think it is critical that the rest of the world understands that Americans are good people, and have great respect for everybody in our society.

Mr. Rogers. What would you think if they were going to pick a family of hill people in west Texas, to poke fun at them in Hollywood. What would you think about that?

Secretary Evans. I am sure it wouldn't please me or the people in west Texas.

Mr. Rogers. That is not the way to use the public airways, is it?

Secretary Evans. I wouldn't think so, Congressman.

Mr. Rogers. Thank you.

Mr. Wolf. Obviously I share Mr. Roger's comments. These are people that have sent their sons and daughters over the years to fight our wars. And anything that demeans, it is almost--and I had the same experience, too, traveling in the Middle East earlier this year. They were talking about some of the shows, ``Baywatch'' and different things like that. And I think those things almost push cultural decline; whereas when you are watching public television, the ``Burns'' series, the ``Civil War'' series, different things like that. So I share Mr. Rogers' comments.

Mr. Mollohan.

Mr. Mollohan. Thank you, Mr. Chairman. The gentleman from Kentucky continues to impress me.

Mr. Secretary, I would like to join the Chairman and the rest of the committee in welcoming you to the hearing. I will simply note that I associate myself with every comment that Mr. Rogers made, and you are in a unique position as an opinion maker to express that opinion, fairly powerful way in appropriate forums. And appreciate your answer and your sensitivity to the issue.

#### EMERGENCY STEEL LOAN GUARANTEE PROGRAM

Mr. Secretary, the steel industry is very important to the upper Ohio Valley, to West Virginia, the area that I am privileged to represent, to the area across the river, and to Pennsylvania just across the line. We have a significant steel industry that has survived during 25 years of challenge and reorganization and increasing international station of our economy that has put disproportionate pressure on basic industry and certainly on the steel industry. We recognize that process and we are appreciative of, quite frankly, President Bush's being responsive in a couple of areas, particularly the 201 tariffs that he imposed and they have been helpful.

That has provided an opportunity, a certain relief, if you will, to allow the steel industry to regroup, to consolidate, and to effect efficiencies. We are appreciative of the 201 program, about which I would like to ask you a couple of questions later.

The other program that is of significant importance is the Emergency Steel Loan Guarantee Program. Do you sit on the board of that program?

Secretary Evans. No, I don't, Congressman.

Secretary Evans. The Deputy Secretary of Commerce sits on the board. I delegated that to him.

Mr. Mollohan. Okay. Thank you. I note in your fiscal year 04 budget that you rescind funds for the Emergency Steel Loan Guarantee Program. Does the President support this program?

Secretary Evans. Over the course of the last 2 years, the independent board has reviewed a number of applications and has approved one of those applications.

Mr. Mollohan. I believe you approved two, haven't you?

Secretary Evans. The Geneva application was approved, but that was before we showed up. So this Administration has only approved one, Hanna Steel.

Mr. Mollohan. Geneva and Hanna.

Secretary Evans. The Geneva one was before us. And that one

is in trouble, as you know. We won't get full recovery on that. I am not sure what the recovery will be. It is in bankruptcy and we will have to see what we are going to wind up getting. But it will clearly be a loss to the American taxpayers. The program is scheduled to come to an end December 31st of 2003. In order to even be considered, you have to have an application in by June 30 of 2003. So actually in terms of the 04 budget, if you are not in by the beginning of the 04 budget, it is too late because time has run out on the program.

So we thought that the program has probably been a program that was useful for maybe one company. I am not sure it is a useful program, and clearly don't think it is a useful program going forward. I think, as you said, the industry is going through restructuring. I think very constructive restructuring. You are seeing industry take the kind of steps--when I say ``industry,' ' you really have to say the integrated sector of the industry, the mini-mill sector of the industry has been competitive globally. They are not going through the kind of restructuring that you are seeing in the integrated sector of the industry.

But the integrated sector is restructuring. It is healthy and we have several emerging viable integrated companies. We have others that are still trying to determine just exactly what their structure will be. And I think the market forces will continue to drive what their structure will be. I have been pleased to see capital that is available for the restructuring. That is healthy, to know that there is capital available to be injected into these new merged companies or restructured companies.

Mr. Molloy. Okay. If I might, however the President feels about the program or however the Administration feels about the Loan Guarantee Program, it was a program that came from Congress and I think you would agree that certainly in certain situations it would be a good tool to use. It would be applicable, maybe, if it was just one steel company. I know if Hanna is successful from Alabama, that would be a success story.

But I am particularly interested in Wheeling--Pittsburgh and the fact that the board unanimously turned down the guarantee request last week. I must say was a surprise because we were hearing--obviously inaccurate--rumors that the guarantee might be approved. So the denial was somewhat of a surprise. It was a surprise to me, it was a surprise to a lot of members of Congress who represent these areas. It was a surprise to the company, it was a surprise to the union, it was a surprise to the State of West Virginia that the application was not approved. You are in a unique position to give us some insight into that disapproval and I would ask that you do that.

Secretary Evans. Well, I am not in quite as unique a position as you might think, because as I said, I don't actually serve on the board, but delegated that to the Deputy Secretary. The other members of the board are Harvey Goldschmidt, who is the Democratic appointee to the SEC, Governor Lyle Gramley who is with the Federal Reserve Board, appointee of Chairman Greenspan's; and Deputy Secretary of Commerce Sam Bodman. So I just mention the three names to say that this is a bipartisan board.

Mr. Mollohan. I know. I am not asking that question. I will stipulate that it is a bipartisan group. I am just asking for insights, substantively, why wheeling--Pitt's application was not approved.

Secretary Evans. And what I would say to you is while, these are terribly difficult times for the industry and difficult human challenges, when it comes down to upholding the laws of the land, there are some very specific guidelines and laws that have to be honored, and of course are going to be honored. Those kind of guidelines that would be used in any kind of loan application. Are there adequate assets available as collateral to support the loan?

Mr. Mollohan. Okay. I understand that there are general criteria. I am very much for abiding by the law. What I am asking is could you give us some feedback. Feedback has been an issue throughout the processing of this guarantee, request and we are very appreciative of the board considering this application. I am trying to get some feedback. This is a \$250-million guarantee request. Surely you have some feedback and insight into what were the deficiencies with regard to this specific loan guarantee application for this specific corporation?

Secretary Evans. I will be glad to put the appropriate people in touch with your office so you can get whatever feedback they can provide you.

Mr. Mollohan. All right. That is fair enough. I thank you for that.

Secretary Evans. You bet.

## 201 TARIFF EXCLUSIONS

Mr. Mollohan. As I indicated before, we are very appreciative to the Administration for the 201 proclamation and it has been helpful; however, it is interesting that it has not necessarily decreased imports with regard to hot-rolled steel. I guess it has had an impact on cold-rolled imports. The Administration is considering, I believe, a fourth round of exemptions to the 201 order.

Can you tell us what exemptions are being considered and how many are likely to be approved?

Secretary Evans. Well, Congressman, I can't--I don't know the list specifically. I know a few names, just a couple of names. I know there are about 400 exclusion requests in. I know we plan to release that before the end of March. But I don't know how to give any kind of guidance right now as to how many of those will be approved and which ones will be disapproved. Again, as you know, it is a methodical, legal kind of process that we go through to determine which ones meet the criteria and which ones do not. But we should have an announcement to make before the end of the month.

Mr. Mollohan. All right. There was a concern when the 201s were imposed that we would possibly have surge issues and from specific regions and countries. Some of my companies have been in touch with Ambassador Zoellick noting that there were initial import surges from India and Turkey in September of 2002, and more recently in January of this year from developing countries. It appears that imports from these countries are

really cutting into the teeth of the 01 remedies. Do you have any plans to address these surges?

Secretary Evans. Congressman, I know that it is something that we monitor every month. I haven't heard it being a major issue, but it is something that I will certainly check on.

Mr. Molloy. Well, the industry is imputing your Department, Mr. Secretary. There are expressions of concern from the industry with regard to these surge problems. And if only at this hearing, I appreciate the opportunity to sensitize you to it and look forward to working with you with regard to it and appreciate your good work and appreciate your sensitivity to our special concerns.

Thank you, Mr. Chairman.

Secretary Evans. I appreciate your good work. Thank you.

Mr. Wolf. Mr. Secretary, we are going to have to recess for about 15 to 20 minutes. There are three votes. There are about 8 minutes left, so we will go and vote and come right back and begin the hearing with Mr. Vitter and then we will go back and forth.

Secretary Evans. Good. Thank you, Mr. Chairman.

[Recess.]

#### FEES FROM INTERNATIONAL TRADE MISSIONS

Mr. Wolf. The committee will resume. When the other members come back, we will defer to them for questions. But in the interim, I have a couple other questions.

Mr. Secretary, your budget requested a number of new trade-related personnel enhancement for the International Trade Administration, ITA; yet the budget proposed to pay for these increases by charging more for companies to attend international trade missions. We have been told that the market will not bear an increase in the fees to allow small- and medium-size businesses to attend trade missions. I think that is open to question. I would like to get your thoughts on that.

But has there been any analysis done to show that ITA will be able to bring in the \$13 million to offset the spending needs? And I understand, again, OMB--and I think it is appropriate that you are here representing the Administration, I am not trying to get you to be critical of anybody, but from your point of view, do you think that that will drive people away or do you think that it will bring there that \$13 million?

Secretary Evans. Well, Mr. Chairman, I asked the Foreign Commercial Service to look at this issue very thoroughly and thoughtfully a couple years ago because I saw some opportunities for enhancing the fee structure somewhat in order to continue to strengthen that very, very important agency. I think it is one of the really hidden treasures of certainly the Department of Commerce, maybe the Federal Government, in terms of an agency that can work with small- and medium-sized businesses and introduce them to the global marketplace. And so along with this study the Department was very sensitive to making sure that we didn't change the fee structure in any kind of way that would discourage small businesses and medium-size businesses from participating. I think that the fee structure that has been proposed discourage small- and medium-size businesses. I think we will continue to see, in fact, growth in

that area, of more of them being participants in that very important program of trade missions and other kinds of services that we provide.

Mr. Wolf. What would the cost be, on average then, to a small company?

Secretary Evans. Chairman, I am not sure of all the fee structures or what it costs to go to a trade show or a trade mission. I am sorry, but I will be glad to get that to your office. I just don't know the whole fee structure of that. But I do know that we did run a very thorough study of that to check if these fees were going to drive small- and medium-size businesses away from that service that we are providing. The answer was no.

Mr. Wolf. Could we see the study for the record?

Secretary Evans. Sure. You bet.

Mr. Wolf. Mr. Sweeney, would you like to have a question? I recognize Mr. Sweeney.

Mr. Sweeney. Thank you, Mr. Chairman. What an honor it is to be here, Mr. Secretary, with you my first day on this subcommittee. And I have, as I think you know, been a great admirer of your work and thank you for your testimony and welcome.

#### FREE TRADE FOR AMERICA

I am going to play a little bit off on some of the questions that the Chairman asked as it relates to some concerns that I have on trade. I am a member who, unlike my predecessor, has moved very distinctly towards a freer trade agenda for America, recognizing that there was risk in doing that, frankly, because some of my constituents don't share that view because they have felt that it has been disproportionate and unequal over the years. And finding that balance between what is fair trade and necessary trade and what still maintains the essential needs of your constituents is always the challenge that someone like myself faces.

Recently, in particular, it has become a more sensitive issue in my region of the world in upstate New York. You spoke earlier about the steel issues and finding the level playing field, and I think that was as adequate a place to point out the complexities of what challenges you face in making the decisions you have to do that.

But as it relates to agriculture in particular, I am hearing a great number of concerns from many of my family farmers, many of whom I will point out, are sending their sons and daughters overseas to defend America and fight for freedom and liberty, and at the same time feel a great level of concern with what they see are inequities in trade policy as it relates to agriculture.

And specifically, I will point to the dumping of Chinese apple juice concentrate and the mislabeling of milk protein concentrates flooding domestic markets from the EU and from Canada, which shares great close proximity with my district. And it is manifesting itself in this notion that as we are sending our families over to fight for the right things and defend America, we are at the same time allowing nations like China and others--who would seemingly be our allies in some

respects but have not much acted like our allies lately.

And I would like to ask you to speak specifically to the coordination between the ITA, the International Trade Administration, and USDA in ensuring the local producers and their products are a priority of this government and that we continue to seek to find that place for equity and balance in fair trade. If you could talk a little bit about some of the initiatives you have undertaken and give us an assurance that might be available to us, I would appreciate that.

Secretary Evans. Thank you very much Congressman. I am honored to be here with you as well. Probably the central focus right now of agriculture in the world is our negotiations at the WTO. The President has said that any future negotiations related to trade, that agriculture would be the cornerstone. That is where the focus is. And that is clearly where the focus is at the WTO Round right now in Geneva. That is the top priority issue for America and we believe we will have concluded by December of 2004.

There are a number of changes in the global system with respect to tariffs, export assistance, and domestic support, that we have put on the table to bring down barriers around the world to our farm community here in America.

As I travel across the country and have a chance on occasion to talk to some ranchers and farmers--and obviously that is not absolutely in my bailiwick, that is over in the Department of Agriculture--what I hear is they want to see markets opened up around the world. In fact, a third of the land that we plant and harvest right now goes to exports. And so it is already a major, major component of the agriculture income in this country.

But the focus needs to be, should be, not only on bringing down tariff barriers around the world, but also making sure, as you mentioned, about steel that we achieve a level playing field for our products. And it is complex, but we have got to continue to fight for a level playing field. We cannot allow other countries to dump their agriculture products here in our country that have been subsidized by their governments.

And so that is an issue that we must continue to wrestle with and we must continue to stay focused on. So, Congressman, the agriculture community is a critical part of this economy, the backbone of this country. The President understands that. It is where the focus, as I said, of all future trade negotiations will be. We are going to continue to do all we can to challenge other countries to make sure that we have a level playing field, and that they are not subsidizing their products and then trying to dump them into our economy.

Mr. Sweeney. I appreciate that. And from your position, I think you could bring to bear great influence on the debate and discussion. And it isn't simply the issue of subsidies by nations, although that is an issue of concern. It is the level of the standard and the quality of the product that we, I think rightfully, have great pride in what is being produced by our agriculture community, and simply ask--we want markets open as well, it is to our benefit no doubt--but simply ask that when we are in those competitions and those products are brought forth to our land, that they be of the same quality, the same standards be applied.

And I know our friends overseas, especially recently, like to talk about the need for the United States to comport to different principles, be they environmental or other things, standards that they have established somewhat arbitrarily, I would contend. But here is something definitive where we think the equities haven't been matched and would really appreciate your strong voice in that.

Secretary Evans. You will continue to have it, I assure you. There are big countries that are becoming integrated into this global economy. China is an obvious country on everybody's mind, particularly the kind of force they are going to have in this globalization that we see taking place. And what we are focused on is making sure that they are complying with the set of international laws, international norms, as well as making sure that they are honoring our own laws right here in America; because we have trade laws here that we expect others to honor. We have four officers in China, who focus mainly on compliance. And we have an Import Administration Office that has a great team of people, who focus on compliance to make sure we don't have countries that are violating our laws and dumping things here that would hurt our economy and our consumers and our workers.

#### ECONOMIC DEVELOPMENT ADMINISTRATION

Mr. Sweeney. Along those same lines, I have two different questions but relative to the same sorts of notions of competitiveness and how we best help an American workforce in transition in some respects and in manufacturing. For example, there is a changing of the guard from industrial production to industrial-technology labor. And I would like to ask you what is being done out of the Economic Development Administration, some of the initiatives that are being undertaken that address the changes that need to be addressed. I understand the Labor Department has significant workforce development possibilities, but there has to be some cohesion between that and the policy established at Commerce.

As well, I note in your request that you wish to increase the resources to the Bureau of Economic Analysis. This is a little more of a statement than it is a question. I understand the value, and you may want to expound on that a little bit more, towards having and ensuring that we have the most accurate data and most up-to-date data. One of the concerns that I would have is the notion that those resources aren't going to get out into the field. And so maybe you can tell us a little bit about how that information is going to help and we will get out into the field in a tangible way that will help both the quality of the workforce but also help with the growth agenda.

Secretary Evans. Right. First of all on the Economic Development Administration, one of the very encouraging steps that we have taken as far as I am concerned is how we are working closer and closer with the Department of Labor. As you say, they have far more funds than we have in this area for training and education and working with the workforce that in many areas is in transition. We have a number of industries that are in transition. It is harder and harder for them to



compete with the rest of the world. So you have members of those industries, workers in those industries, that need a transition into other industries.

And so we have, in fact just this last fall, a cooperative program with the Department of Labor down in North Carolina, where--obviously the textile industry has been hit pretty hard. The textile industries lost some 700,000 jobs over the last number of years.

The Economic Development Administration is teaming up with the Department of Labor, combining our strengths and our resources to provide a more complete kind of program--not only where we can come in and provide funding to build the infrastructure that is needed to encourage economic development, but at the same time encourage other industries to come into that community. We can combine that with the Department of Labor funds that are brought in.

The central point is a very good one. We have to be very sensitive to the fact that our economy is going through a transition and it will continue to. And we have to be sensitive to do all we can to help and support those workers that are being impacted by this transitioning economy. And I think we are doing, quite frankly, a good job in terms of looking at ways that we can be more efficient and more effective and have more results with respect to delivering the service to the worker, to the community, to the town.

So we asked for \$13.8 million additional funding there, and that is what some of that funding will go to, a more targeted focus with more cooperation with Department of Labor and other agencies.

With respect to the BEA and funding to improve the data that we use, really those funds were primarily to give the Bureau of Economic Analysis as well as the Census Bureau the resources they need to better analyze a changing economy. We are moving to where more and more of this economy is service oriented. We all know that. We really don't have the tools in place right now to capture, like we should, the service sector of this economy. And we also learned in the 1990s there are a number of things that impacted the economy that we didn't do--we don't do a particularly good job of evaluating. One of them happens to be stock options: How do you look at those with respect to what is going on in the economy?

So anyway, these are funds that were primarily to make sure that the Bureau of Economic Analysis, which presents a number like the gross domestic product growth to this country every quarter, is providing the country the best and most accurate possible data; because that number is so important not only to Federal Government planning but State government planning, local government planning, and private sector planning. We saw some weaknesses there, because we missed the mark by quite a bit.

Mr. Sweeney. I understand the weaknesses and appreciate the extra effort, but the linkages you spoke of at the back end of this I think are critical, because they will lead to the kinds of measurable successes that we hope to have in growing the economy.

Let me ask one final question, and it is a little off the subject in some respects but not in others, and it relates to the ongoing effort to find ways to lower prescription drug costs, make them more affordable, balance the needs of consumers and recognize that the pharmaceutical industry has accomplished a great many things that have improved the quality of life of people throughout the world, and we do not want to create disincentives in that process.

And one of the areas I think that provides a stark difference between what we do and, say, what the Europeans do, and whether it is good or bad I am not sure, but I am hoping that the Department of Commerce can kind of help bring some focus to the issue, is the notion of patents in the current patent system and whether it is adequate in order to meet those balances.

The question is simply what kind of an overview have your folks done, or could you provide information to us on what has been looked at and what has been discussed and what the impacts are and what the evaluations are in that area. If not, I would like to work with you at trying to do that as well.

Secretary Evans. That is a great question. It is a timely question because of what we see happening in this world, the rapid integration of this world and the critical importance of intellectual property rights and patents. The Patent and Trademark Office has been working very, very, very hard to engage the world community to move toward a global system so that we are all sharing the same information and agreeing to the same patent standards and criteria, and then honoring those patents.

Eighty-five percent of the patents right now are in Japan, the United States and the EU. So you can take those three entities and work with them and develop a global patent system, which is what we are doing, and is one of the reasons for part of the request that we have asked for. But it is very important because we have got to set the standard for the rest of the world.

I just mention those three areas. Well, guess what? There are a lot of other countries in the world that will want to use the drugs as you are talking about, and will want to use other intellectual property that we have here in America. And one of the critical--one of the real challenges for us as we move on into the first part of the 21st century is the enforcement of intellectual property rights and intellectual capital. And that includes things like patents, people coming up with ideas that are patentable ideas.

So know that we are working very hard on it. Glad to hear you have got an interest in this area. We would like to work with your staff on this because I know I don't go to a country where I don't talk about the importance of intellectual property rights protection.

And the other point that you made, which I think also we need to acknowledge, is that our pharmaceutical industry is the best in the world. We have the absolute best scientists in the world. We have foreign pharmaceutical companies that are relocating here to the United States because we have the best resources in terms of scientists and human capital right here.

And it is very important that we do what we can to protect their property rights around the world.

Mr. Sweeney. I appreciate your comments. I look forward to working with you in that area and many others. Great to talk to you.

Mr. Chairman, I hope you know--I think you know how enthusiastic I am and happy I am on this committee. I thank you for the opportunity, and the Ranking Member, my friend from New York.

Mr. Serrano. I wanted to make sure that it was mutual.

Mr. Wolf. We are glad to have you.

Before I recognize Mr. Kirk, let me just say I do agree with Mr. Sweeney on the apple issue. What they are doing, the Chinese are dumping it here. We have some people coming in here to say that garlic is ready to go through the same thing. We need our people to be champions for it. You cut an apple tree down, it takes 5 to 7 years for an apple tree to produce; you put an apple farmer out of business because some slave labor opportunity came along in China. The guy cuts down a tree, the land is developed, and you have lost the industry. And I think Mr. Sweeney is so right on the apple concentrate issue. And I think a lot of our apple growers really don't believe that our government is a champion for them.

And I bet if you dig, if you dig--and I may be wrong, and if I am I think somebody should check and put it in the record, suggest the Chinese have probably hired some big powerful law firm in this town, people who may have served in this Congress, maybe on both sides of the aisle, that are representing the slave labor people over there in China. Paying big money. The more disreputable the operation, the bigger money they pay. And the poor apple grower in upstate New York or out in the beautiful Shenandoah Valley that I represent just gets lost.

And so Mr. Sweeney is right, and I think we are going to have a hearing. To focus on the issue of China and apple and garlic issues. Let the word go forth.

I voted for WTO. I voted for the Fast Track, whatever the new name is. Nobody from the Administration asked me to vote for it. I did it to give the President of the United States--who I dearly appreciate the fact that he came to change the administration. I did not vote for it under the Clinton administration. But with that I think goes a tremendous burden, a responsibility to advocate for these apple growers and these garlic growers and these other people who sometimes feel that they are powerless in this town.

And I think and I would urge you and your people to be very outspoken, to be very, very aggressive, to speak out on behalf of not only the apple people and the garlic people but all of the other industries in this United States.

Some, I know, go; the buggy and horse whip and other things that end up going, and I know we are in a changing time, but there are some that feel that they are being really forced out not because they are not productive and they are not hardworking, but because of powerful interests around the world.

I just saw the Administration put out its new report on the U.S Religious Freedom Commission. That was my bill. Saudi Arabia didn't make the list. There is no religious freedom in

Saudi Arabia, but no one wanted to offend the Saudis at this particular time, so nobody wants to speak the truth to them. The same thing on these trade issues.

So I want to share what Mr. Sweeney said, and I will tell Mr. Sweeney we will have a hearing. You may want to bring your people in. We will bring and talk to this issue. But maybe after the hearing, your people who work on the issue of apples can come to me--with Mr. Sweeney, before the hearing.

Mr. Kirk.

Mr. Kirk. Thank you, Mr. Chairman. It is a pleasure to be on this committee as well with you and Mr. Serrano.

Mr. Kirk. Mr. Secretary, first of all, I want to thank you not necessarily for your public service as Secretary of Commerce, but as a good friend of the President. I think he as a person probably is going through an enormous amount of stress right now. Your voice and counsel to him is probably almost more valuable than anything else, and I want to thank you for that.

#### ELECTROMAGNETIC SPECTRUM

Secretary Evans. You bet.

Mr. Kirk. On the NTIA, we have got a \$4.3 million increase. It belies an incredibly important issue of the allocation of the spectrum that our government owns. I am just coming out of the Navy, and the last 2 years on the Armed Services Committee, and can I report to you that the Defense Department does not know that its second most valuable asset, after its land holdings, is the electromagnetic spectrum that it holds, worth between \$60- and \$90 billion.

They also are unable to come to the realization that European countries, countries in Asia have already allocated the spectrum they use to their civilian sector. And so in countries in which we ask U.S. Armed Forces to deploy, the spectrum is already occupied by the civilian side. I am worried that resistance inside the DOD will inhibit the deployment of third-generation wireless so critical to the 21st century economy that we want to bring about.

Can you give me this increase per NTIA, your spectrum vision for maybe a post-Iraq policy on spectrum?

Secretary Evans. Well, I--my vision is--is continuing to use technology as well as work very cooperatively, but yet aggressively on finding ways to free up more spectrum for the private sector. I have been pleased, quite frankly, with the cooperation from Department of Defense over the last couple of years that this has been on our watch, my watch, whatever.

We, in fact, announced last year, after working with DOD for a year or so, the freeing up some 90 new megahertz of spectrum that will be available in the private sector in the year 2008. I also have been pleased to know that the Department of Defense is working with us on understanding new technology that will allow spectrum that they may now have and hold to be freed up during certain times during the day when it is not being used.

And so you can see some new technologies entering into the market all of the time that will provide, I think, more opportunities for us to free up more spectrum, because the

Defense Department will get more comfortable with, not giving it up in its entirety. D.O.D. would only give it up during times of the day when they don't need it or periods of the month when they don't need it. I don't know what the timing is.

My point is I think we are making some pretty good progress in what I have seen to not only free up new spectrum, absolutely, but also entering into discussions about technology that can be used to provide for more spectrum in the private sector that maybe you can lease during certain hours of the day.

You do raise, I think, though, another important point, which is just kind of the lack of harmonization around the world, the standardization around the world. I don't know what you do to get that back in the box. It is kind of gone. And could we focus on trying to go forward? How can we harmonize more? We should, but some of it is just too late.

Mr. Kirk. We have got one anecdote that my troops, when we deployed into Kosovo, would not use their military radios because they were so outdated. We used Italian cell phones for military operations. The DOD leadership does not want to wrestle with that, but their own troops would move to the higher technology cellular communications that the civilian side used.

But as we move into a deficit world, \$330 billion now and with the supplemental, et cetera, we may once again have to look at further auctioning of the spectrum to help ameliorate this. And so I hope that we can have some further look at that. You have got a great staff. I want to praise Robert Sawyer, who is your EDA regional director for my area. He has shown some unique leadership in taking a project in my district. The world's largest naval training center had locked itself off from the second poorest town in Illinois, and with a cooperative arrangement between the Department of Commerce and the Navy, we are opening up a gate that will restart economic activity in Illinois' second poorest town. Robert Sawyer signed off on it, but you have got one guy, and I wanted you to call him and tell him you love him. The guy named Jack Arnold, who is a case guy at EDA, has really reflected well on DOC.

#### BUREAU OF ECONOMIC ANALYSIS

We talked about BEA, Mr. Sweeney, and I think that is another critical issue. We have got a \$1.6 million increase to improve the data there, and there have been a number of changes here in the House that may need to be coordinated with what BEA is doing.

The House, in our rules, has adopted the requirement that we provided a real-world or dynamic score for the tax and entitlement legislation of the House. So the need for the data on how the taxpayers and the economy responds to changes in laws has gone up by a quantum level. And that we have--looking at the--the incredible inaccuracies that we have had in prior projections, there has been a resistance here in the House and Congressional Budget Office to the idea of what the experts would call back-casting, where you take the data that has been received from the actual performance of the economy, you then load it back into the models that were used to generate a

projection, and figure out where you were wrong.

In other words, they are doing that at CBO, but I can just highlight this for you that BEA may be extraordinarily tasked to do this, because we are now going to be producing static and dynamic scores here in the Congress. And BEA is going to be absolutely in the center for this battle for new and better data.

Let me just give you one example of what I am talking about. We are wrestling with asbestos liability reform. In a geometric rise in the lawsuits, we have already bankrupted companies that made asbestos. We are talking about any company that in any way involved asbestos. My favorite is Sears Roebuck, which sold an iron in 1957 and 1958 with one asbestos washer. Now they are subject to a huge asbestos lawsuit.

This is a geometric rise, and RAND Corporation says \$200 billion in judgment are probably going to bankrupt several hundred companies in America. Nine hundred stocks right now are depressed because of asbestos liability concerns, aweight that is hanging over.

Right now we do not calculate the loss in tax revenue if we let the system go as it is now and see that \$200 billion taken out of corporate earnings and into jury awards, but we should, because taking \$200 billion out of the taxable income of corporations and giving it to plaintiffs removes--at the corporate rate of 35 percent, removes about \$70 billion from the U.S. Taxable base that the government survives on.

Those kind of liability reform proposals and their tangible effects on the revenues of this U.S. Government should be calculated. We do not right now. But they make a visible difference to the bottom line of the U.S. Government, and we are hoping that BEA can help us begin to calculate the real economic benefit not just to the economy, but to the budget of the United States for those various tort reform proposals.

Secretary Evans. Well, I appreciate those remarks, Congressman. You are right on target. You need good information to make good decisions for the American people. And that is why I am so strongly supportive of the additional funding for BEA. I have had the pleasure to visit with the Chairman of the Federal Reserve quite frequently. It is an issue that he brings up with me almost every time we visit.

When you have got these large issues that impact our economy, it is critical that all of you have the best possible data that we can possibly present so you can make the decisions that the American people expect you to make. So we look forward to working with you on the issue.

Mr. Kirk. Thank you.

Mr. Chairman, thank you.

Mr. Wolf. Thank you, Mr. Kirk.

Mr. Vitter.

Mr. Vitter. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for being here.

#### SECTION 201 TARIFFS

I want to focus on trade, which has come up a few times today already. It is a very sensitive set of issues, in particular for those of us from Louisiana. As I think you know,

I was a strong supporter of fast track, and the entire Louisiana delegation was, and we helped pass that legislation. Very strong support for the controversial and difficult issue of improved trade relations with China, again very strong support in the Louisiana delegation. So we have consistently been for free trade and supported the President on those issues.

But whenever, quite frankly, it has come to a specific issue that has a big impact on us, namely steel, and now sugar, we just haven't had a big impact in terms of Administration policy, and we feel like we are really not being heard and our concerns are falling on deaf ears.

The steel tariffs have had an enormous negative impact on our ports. And nationally, of course, they have had a big negative impact north of us in terms of steel consumers with major price increases.

And now we are in the midst of a potential sugar agreement with Mexico that is still up in the air, that is still in flux, but that also poses enormous threats and consequences for Louisiana.

So I guess I have a few specific questions with all of that in mind. On steel, you touched on Administration plans to decide and announce on additional exclusions to the section 201 tariffs on steel imports. What is the precise timetable on that?

And, secondly, under that 201 process, I know the Administration has mandated to undertake a review of tariff policy. In that review can you commit to specifically examine the impacts of the tariffs on both steel consumers domestically and the port industry, which is a major, major economic impact on the other side of the ledger?

And then, number three, on sugar, a big frustration many Louisiana folks have had with the ongoing sugar discussions is lack, in their opinion, of full consultation in terms of the domestic industry. What can we do, perhaps within the Commerce budget, through the International Trade Administration or some other part of Commerce, to fully engage domestic industries, whether it is sugar or anything else, in key negotiations that are going to dramatically impact their futures?

Secretary Evans. Congressman, the first one, in terms of the precise date, I have got to get you the precise date on the 201 exclusions. It is sometime this month, the month of March, we will make the announcement on the exclusions that are being considered right now.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

In terms of the 201 review, I can absolutely assure you that we will consider the impact of the 201 safeguard on not only the producers, but the consumers. That includes, obviously, the ports as well as other manufacturers. And so you have our assurance that we will look at that. The anniversary date was yesterday, so it is 6 months from today that you have the midterm review.

Finally, what was your third one? I am sorry.

Mr. Vitter. It was really focused on ongoing sugar negotiations with Mexico, but, more broadly, what can we do to make these domestic industries feel like they have a seat at the table in terms of active input during those negotiations.

Secretary Evans. Exactly.

Congressman, you know, I would say this: We certainly have endeavored on many of the industry issues like lumber and steel, and whenever the Commerce Department has a role to play in the negotiations, in the discussions, I feel like we have been very open, very available, very accessible, encourage groups to come in from both sides of the issue, and have, I think, a pretty good track record of doing that.

Now, I hear some concern specifically on sugar, and that is not in our Department to deal with that. That is USTR, as you know. But they are not trying to pass the buck either. We are responsible for Commerce and making sure that the commercial side or the commerce side of this committee, that if there are concerns, that we are involved in making sure the right people are talking to each other.

I do know on the sugar issue, which happens to be, kind of the issue of the moment, there are active discussions going on with the industry. And I know USTR is talking to them now. So I know those discussions are under way. And I am glad to follow up with that and check to make sure that the industry is satisfied with the administration being accessible to them, because it is important.

Listen, as far as I am concerned, it gets back to the basic fundamental issue of trust and being able to sit down with people and have your views heard and expressed, and it is something that, as I said, I think we do a good job of around the Department of Commerce.

If there are problems where we are not dealing with other industries like we should be, I want to know about it.

Mr. Vitter. Well, by way of background, I have been involved on the sugar side. I have met with the lead negotiator. And to boil it down, I think the domestic industry is quite frustrated about the level of consultation and the method of consultation, because basically they are brought in once an issue within the broader negotiation has been closed in principle. And they are brought in and told, this is the deal on that issue. We would love to hear your technical comments.

And very often, you know, the big picture items that they would have significant input on, and how those fundamental issues affect other related issues, and what sort of deal it portends, when the whole thing is wrapped up, it is too late. They are basically asked for rather marginal technical comments once the principle has been decided. And so from their perspective, that is minor or marginal consultation and input. Because they are only invited in, they have a conversation at the beginning about broad principles, and then they don't hear again until an issue is put to bed and they are invited for technical comment.

Well, the devil is in the details, and everything in between those two points is really the heart of the matter that they feel that they are basically shut out of. So I am just passing that on----



Secretary Evans. Thank you.

Mr. Vitter [continuing]. --As their perspective in terms of how this particular consultation isn't very effective from their point of view.

#### NOAA PROGRAMS IN THE GULF SOUTH

Secretary Evans. Okay.

Mr. Vitter. Finally--let's switch gears. Another very important part of your Department in my part of the world, the Gulf South, southeastern Louisiana, is NOAA. Obviously the Gulf maritime commerce is enormously important to us. Just two thoughts, and you don't really need to react, but just two thoughts to put in your mind.

NOAA has an ocean exploration program that I think, from everything I know, has taken off in the right direction very successfully. There are things called AUVs, autonomous underwater vehicles, that are very effective in terms of that exploration, and I would encourage NOAA to look at that as part of their program, and in particular to look at what is out there in the private marketplace versus reinventing the wheel in government, because I have gotten briefings and think that can be a very effective way of doing that work cost effectively.

And, secondly, obviously NOAA charts the oceans and the Gulf, and that is very important for maritime commerce. We still have a big backlog in terms of charting, and that has a negative impact on maritime commerce, including in my part of the world. Anything you all can do, NOAA can do, to eat through that backlog would have a direct positive impact on that part of our economy, which is a big part of our economy, and in particular, I believe their somewhat hesitant exploration of private charter opportunities which has been getting going, but somewhat hesitantly, I think it has been proven very cost-effective. So I would encourage them to look at the numbers and to see what sort of bang they get for the buck when they hire out that charting service versus the old government way of doing everything in-house.

Secretary Evans. Thank you, Congressman. I will look at the AUVs and appreciate that thought and idea. I know that the private charters are something that we have been incorporating more and more into the program. What I know of it is they are pleased with it. But I will take another look at it and see if there is a way that we can ramp it up even more.

Mr. Vitter. Thank you.

Mr. Wolf. Thank you, Mr. Vitter.

Mr. Kennedy.

#### NOAA ISSUES IN NEW ENGLAND

Mr. Kennedy. Welcome, Mr. Secretary. Before we went off to the vote, I presented you with some unique challenges that we have in the New England area, one of which is affecting most of the New England area, and that is the precipitous decline in the lobster fishing industry. What we found in last year's budget is this buy-out of commercial fishing vessels. But I am not sure whether your Department has the discretion to target some of those funds to the buy-

out of some of these lobster fishing boats because of the NMFS's total agreement that we have overfished the lobster grounds up there, and I would ask you, if you would, to comment on that.

And then I have two other points that revolve around the previous question by Mr. Vitter regarding NOAA, and that is to ask about the regional computer modeling efforts under way so that we can better develop a climate modeling center for the New England region, which right now we are looking to get going. I know other regions of the country have that going. In New England we want to get that climate modeling going.

And in regard to the climate modeling hurricane research. You know, that University of Rhode Island has worked well with NOAA in working with some innovative technologies to have better predictive models for hurricane forecasting. I think that needs to continue, given the fact that the loss of life and valuables is growing with each hurricane, and we need to do a better job at forecasting.

I just ask if you can comment on what NOAA is doing with URI on that. So basically there are three questions.

Secretary Evans. Thank you, Congressman. Good to see you again, sir.

On the late lobster issue, I know it is an issue we have been working on for quite some time, before I showed up, and the difficulty in reaching an agreement in the area of how we are going to manage lobster is that there are some 10 or so States that have to be worked with and coordinated. And so what--they could collectively agree on here is the plan for fishing lobster in this region.

Mr. Kennedy. If I can interject. All of the lobstermen, all of them, usually there is controversy whenever you talk about fishing and conservation, they are all agreed that there needs to be boats taken off the market and licenses retracted, and they are in total agreement. So it is very infrequently that you find them wanting to give up their trade, but they are desperate. They need a buy-out program like the one we just passed in the 2003 budget. I am just hoping that you can consider lobster fishing in the overall commercial fishing buy-out.

Secretary Evans. We will look at that in terms of buy-out. I am not aware of any funds being designated for buying out lobster fishing boats, but I am glad to take a look at that.

[GRAPHIC(S) NOT AVAILABLE IN TIFF]

Also, in terms of an overall program for lobster fishing in that part of the world, it has been something that they have been dealing with for quite some time. I am optimistic that we will soon have the plan that we can present to that region. It has been 4 years since we have been working on it. So I think we are very, very close there, and I think that they will have a plan in the very near future.

#### GLOBAL CLIMATE CHANGE

In terms of regional modeling, let me say this: This Administration has given the highest priority to understanding

the issues around global climate change and getting this country in a position to make good policy decisions with respect to global climate change, measured steps that we should take.

We are not the leader in the world right now when it comes to modeling. The leaders of the world are elsewhere. We do have a lab, a Geophysical Fluid Dynamics Lab, at Princeton, New Jersey, that we work with. And we have committed some \$3-1/2 million in funds to continue to strengthen that lab so that we can move this country toward being the leader in the world when it comes to global climate change modeling.

With respect to regional modeling, I know that there are some areas that are ahead of others. We have committed some \$1.7 million in the budget this year to assess other regional modeling centers, and so I am certain that that also includes the New England region, which is an area that our staff will report back to you, and just to tell you the results of that assessment and steps that will or may not be taken.

[Clerk's note.--Subsequent to the hearing, the following was provided:]

#### REGIONAL CLIMATE RESEARCH

There is currently very little research being done to develop regional climate models specifically for New England. However, research is being conducted by NOAA and its partners on development of higher resolution global and very high resolution regional climate models which will be used to assess the impacts of climate variability and change on the U.S. as a whole, and will enable New England studies also. In addition, the FY 2004 budget request includes a request (description attached) that will allow the Geophysical Fluid Dynamics Laboratory to obtain the necessary resources to enable simulations addressing policy and business issues, and turn NOAA's investments in the Climate Change Research Initiative (CCRI) research into policy relevant knowledge. Such simulations could be specifically targeted to the New England area as needed.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

With respect to the good work with University of Rhode Island, hurricanes, and as you pointed out this is a matter of public safety and of great importance to this country. We stay very, very focused on doing all we can to strengthen our ability to deliver the information to the American people they need with respect to hurricanes. What I know is that people have been pleased with the work that has been done with the University of Rhode Island.

I also know that we have put into the budget some \$10.4 million that will be focused on a new world weather building. This new center will allow us to continue working with meteorologists, both in government and academia, to improve the models that NOAA uses to produce nationwide forecasts, including those used for hurricane modeling and forecasting. And so I will make sure that our team makes note of your

comments with respect to the University of Rhode Island, and we will continue to look forward to working with them.

Mr. Kennedy. Great.

Finally, Mr. Chairman, let me just say, if we can continue to work together on some of the other programs that Commerce has, the MEP program which has worked very well in our State with small businesses, giving them the support services they need to transition during difficult economic times, and the Trade Adjustment Assistance has been fantastic in helping many of our businesses, which, have very stringent five requirements in order to qualify for that trade adjustment assistance, such as not only reduced sales, but concurrent increases in imports and the like, we should keep that going. That is a program that has really been worth its while to my region, and it has helped maintain jobs where there have been signs that those jobs are going to be in decline, and would just commend you on the fact that those programs work very well.

And my MEP in Rhode Island has done a terrific job. So I am sorry to see the budget declining for that, but I hope that we will be able to work with each other in the coming year to try to rectify some of that.

Secretary Evans. Thank you, Congressman.

Mr. Kennedy. Thank you.

#### NOAA Partnership With the University of Rhode Island

NOAA has funded hurricane research at the University of Rhode Island through the U.S. Weather Research Program (USWRP). The program is a cooperative effort between NOAA and the other USWRP agencies (National Science Foundation, Federal Aviation Administration, Navy, Air Force, Department of Agriculture, and Department of Energy). The program works towards improving forecasts of the location and intensity of heavy precipitation, including predictions of where inland flooding will occur during the following extreme weather. The fundamental USWRP goals are improving hurricane-at-landfall and precipitation forecasts and determining the quality and cost-effectiveness of different observations applied to models used for medium-range forecasts. These goals address the Nation's highest priorities to improve forecasting of high-impact severe weather events.

Among other activities, the University of Rhode Island has conducted ground-breaking research on the heat flux, or transfer of energy, between hurricanes and the oceans. The results of the research have been applied to NOAA's Geophysical Fluid Dynamics Laboratory's hurricane model, which is now used in an operational capacity at NOAA's National Center for Environmental Prediction. The work has been fundamental in improving the accuracy of forecasts of hurricane intensity at landfall.

Mr. Wolf. Thank you.

Mr. Secretary, I have some other questions. I am sure Mr. Serrano does. We have another hearing at 2:00 p.m. with Attorney General Ashcroft, so we will probably certainly end before. We will try to make the questions go faster, and we are sorry for the delay back and forth, but the House has just apparently recessed and are in Special Orders, so there probably will not be many other Members come.

A couple of fast issues. Conflict diamonds. There are press reports, and I have seen data, that I now believe, in fact, that it is true that al-Qaeda is funding their terrorist activity through conflict diamonds, and conflict diamonds coming out of Sierra Leone and places like that.

The Administration has been very slow in dealing with this issue. On December 31st the State Department issued a press release stating the U.S. has determined the full implementation of the Kimberly Process recommendations can best be achieved through legislation. I know this is not directly--I don't know how much you know about conflict diamonds. There is a whole-- conflict diamonds has funded Hezbollah. Hezbollah blew up and killed 241 marines in Lebanon in 1983. They blew up the American Embassy there. But now they are involved. And I will send you and show you--if you or your staff or someone can come by, we will give you the tape. We have met with our people in the government. But that is a law enforcement issue.

The Administration has to deal with this issue, and the bill just kind of hangs around down there. The Ways and Means Committee wants to move it now. But if you would as the chief business trade agreement Commerce person get behind tough, aggressive legislation that shuts down the diamond trade coming out of--the conflict diamond trade coming out of that region so that we do not fund al-Qaeda and bin Laden and Hezbollah and those. If you could say something about it, I don't expect you to be an expert, but if you will look at it and make sure that the administration comes up with tough and aggressive legislation.

Secretary Evans. Absolutely I will look at it, Mr. Chairman. I appreciate your championing of this very important issue. I know it is something that you have worked very, very hard on. I think it is something that does need to be dealt with. You have my assurance that I will communicate that with the right people within the Administration.

#### EXPORT CONTROLS

Mr. Wolf. Thank you very much.

Export control. Last year you requested additional funding and positions to establish new attaches in China, Russia, United Arab Emirates, India, Singapore and Egypt to reduce the risk of dual-use sensitive items to terrorist groups and countries. The fact that these five are mentioned, are these five--do you have particular concern about, or was the office not fully staffed, or why did we pick these five countries?

Secretary Evans. Well, those are countries that are of interest to us that we are going to pay attention to, and very closely scrutinize when it comes to exporting dual-use products.

Mr. Wolf. Do you have any comment about the article in today's paper with regard to Hughes and Boeing settling with the U.S. troubles me deeply that two American companies would be actually giving or selling something and doing this whereby the Chinese would have this technology. What are your thoughts about the agreement that was reached?

Secretary Evans. Well, actually that is handled by the State Department. But let me just say, I was glad to see it had

been resolved. It is very troubling, like you say, to see that information may have been passed that should not have been.

The export control. Let me get back to your original question for just a moment, because--and I will specifically mention China, because it is an area on which we have great focus because they haven't cooperated with us like we feel they should, particularly when it comes to end-use visits of some of their facilities. And also China is not a member of the other countries that you listed. I am not sure about all of them, but some of them are not a member of many of the nonproliferation agreements that are out there in the world today, like Wassenaar and other international agreements.

So it is these countries that we will pay extra close attention to, especially concerning the list of products that we must monitor and license. It is countries like China that won't have an automatic exception or exclusion. We will give anything that is on the list, that is going to China, an extra amount of scrutiny. So countries that are not members of some of the nonproliferation agreements that are out there in the world right now get added scrutiny from us and our team.

Mr. Wolf. Separating the comment out from the two countries, the two companies that have been involved, because I don't know that much about this case, so I don't want to have any--what I am going to say now should have no connection to Hughes and Boeing, because I am maybe saying something inaccurate with regard to them, I would sense, and I would believe and feel very, very deeply, particularly since we are asking men and women to serve in the military to fight and defend our country when you find the companies are doing this, I believe it is very important to have criminal penalties. I believe when a company does something like this is treasonous, traitor activity.

The Justice Department was seeking the death penalty for Regan, his name was, who was trying to sell secrets. And then for a company--and again, I disassociate this comment from these two companies, because I don't want to say something negative about them and hurt them that way. But when you find a company that is doing this in the world today, it is like the Enron situation and some of the other situations. To prosecute--and the Administration has a good record of cracking down on some of the corporate crime. I have listened to the President speak. This is a corporate crime, but this almost approaches treason, because you are jeopardizing the lives of young men and women who are fighting for the country, so sometimes just a civil penalty of a fine just really doesn't do it. And I think criminal penalties, particularly since, you know, it is to whom much is given, much is required, we want to trade, we want to be out there, we want to be doing this.

But on the other hand, if you are doing something, and these companies who will be doing this will be knowing that they basically--remember the Toshiba case years ago under the Reagan Administration, the selling of the quiet propeller and the technology whereby we used to hear the Soviets so far off the coast. After they did that, it was very difficult for a period of time, which put in danger the security of the United States.

Criminal penalties. Bring them to justice, because, in

essence, it is the same thing, in essence, to a certain extent, of what the penalties with regard to the person who is trying to sell secrets, and do that, that the Administration asked for the death penalty on. I understand the jury decided not to give the death penalty. I am not talking about death penalty, but criminal charges so the word goes forth that companies ought to be as patriotic as individuals and not do this, which jeopardizes the security of the men and women who serve in the military.

Fiscal year 2003 bill included funding for a new comprehensive human rights training program for ITA employees, including U.S. Foreign Commercial Service officers, to help them understand the importance of promoting human rights. When these employees are counseling U.S. Businesses on market conditions within a particular country, and I understand your staff is now working with it, it is important to let them know how important it is that they also counsel with regard to human rights.

I urge you to kind of make some statement when they all come together so that they know, in addition to promoting business, it is--we want to be sure that we are also promoting human rights at the same time.

#### CORPORATE RESPONSIBILITIES

Secretary Evans. I am excited about the program. I am delighted that we are going to have a training program that will be part of the U.S. Foreign Commercial Service Agency that will address the issues of corporate responsibility of human rights and the rule of law.

One thing that I do when I travel the world, Mr. Chairman, is I always like to go to a facility that is being supported by American capital, by enterprises in the region that are there and giving back to the community and taking the American values of respecting human rights and the American values of sharing with others with them.

And I always have a very easy time of finding a school or a hospital or some facility that is being supported by American companies. I was in Lima, Peru, not too long ago and went to a school that was located right next door to a brickyard. This brickyard was a large pit where they had children that were filling forms with mud and water to form the bricks.

A company from America that is prominent now in Peru decided that is not right, these children need to be in school. And so the company went and provided the funding to establish a school that is right next door to the brickyard, and now those children are in school instead of in the brickyard, where they shouldn't be. In fact, it is illegal for them to be there, but they have been there.

And so this program that we will have inside the Foreign Commercial Service will talk about the great social responsibilities that companies have when they go to other places in the world. I mean, it is what we feel here in America, these offices that are scattered all around the world will talk about the importance within the country for the country to understand basic issues of human rights and rules of law and other corporate social responsibilities.

So this is a program that will feed through about 100 offices here in America and 100 offices around the world. I will make a statement to them, I assure you of that, to tell them how important this is for America leading the world toward people having the kind of freedoms that we cherish here in America, the kind of dignity that all human beings should have.

I think it is integral to our responsibility of leading the world. And I have already mentioned Foreign Commercial Service during this testimony this morning. I tell you it is a wonderful team of people. They are all over the world. They can take this powerful message of American values and deliver them into the countries where they are, remind the companies that are moving into these countries of the importance of practicing corporate social responsibility and human rights issues and encourage rule of law in these countries.

Mr. Wolf. Thank you. I have a few more, and then I am going to submit the others for the record and then recognize Mr. Serrano.

#### 2010 CENSUS PREPARATIONS

The budget request includes \$662 million for the Bureau of Census of which \$260 million is to continue preparation for the 2010 census. The 2000 census and the decennial census before, a household would expect to receive either a long form or a short form survey to fill out.

The budget proposal is to reengineer the way that the decennial census is conducted, more specifically the proposal would have American households expect to receive only a short form survey during the decennial 2010 census; is that correct?

Secretary Evans. That is correct.

Mr. Wolf. With the congressionally approved questions included on the long form survey in 2000 census that are proposed to be included in the annual survey called the American Community Survey, ACS, your proposal includes sending this long form questionnaire to 3 million households not every 10 years, but every year. Is this from a budgetary issue?

Secretary Evans. Well, it is a couple of issues, Mr. Chairman. One is to provide better, more timely data to the customers that we have out there, like the Federal Government and State governments and local governments and the business-- and the private sector, as to demographic patterns in our country. And with the long form being used every year by 3 million a year, we will be able to provide more timely information to our customers as to the patterns in this country. So instead of waiting every 10 years to understand population movements and growths in certain areas of our country, we will have a running total of it. Instead of collecting long form data every 10 years we will get ourselves in a position to have an annual number.

It is providing better information to the customers that we have that make big, big, big, very large resource decisions as to how money is going to be allocated, or how it is going to be invested. It will be a very valuable tool to States when they receive Federal money to how they disburse the money within their own State. How they disburse it, whether it be county by county or city by city, they will have more accurate



information as to where the people are in their State than they would if they were waiting every 10 years.

In terms of is it an economic issue, quite frankly, Mr. Chairman, we feel that by doing this annually every as opposed to incorporating it into the 2010 decennial census, that it certainly won't cost us any more money, and, in fact, may save us some money as to just trying to do it as a one-time, one-shot, do it in the 10th year and not any other.

Mr. Wolf. You think it will save?

Secretary Evans. I think it will save us some. We do feel like the track we are on now, we will save several hundred million dollars in the decennial census that we would wind up spending if we don't incorporate the American Community Survey.

Mr. Wolf. Okay. Then we will just submit the other--we had others that were budgetary issues. They tell me Congressman Davis's Committee is going to have a hearing on this issue. We will just submit them for the record. Some of the questions we will ask you, if you do not get the funding you are asking for, what will the impact be? But let me submit them for the record.

Secretary Evans. Right.

#### INTERNATIONAL STANDARDS BARRIERS

Mr. Wolf. Last year we heard reports that U.S. Companies did not appear to be as competitive as non-U.S. Companies because U.S. Standards are not incorporated in many of the international agreements. What is happening is when they bid they are automatically cut out because the standards have cut them out.

Secretary Evans. Well, first of all, we are being as aggressive as we can through NIST to work with the international standards organizations so we are in the mix when it comes to setting standards in emerging countries.

Mr. Wolf. Are we finding that some of them are trying to knock us out by setting the standards?

Secretary Evans. I wouldn't go that far at this point, Mr. Chairman. I am not saying that they are or they aren't. All I can tell you, I will get a more specific answer to that good question if we have a specific example of a credit that it seems like they are trying to knock us out. I will say this then to you, that we have been out of the kind of trade negotiations game for quite some time. Now we are back in it with trade promotion authority.

But others in the world, like the EU, have been very aggressive, and they have many more trade agreements than we have. And when you enter into trade agreements, sometimes certain standards are set within those trade agreements between those countries that wind up as barriers to American companies, because when we finally get into that market, maybe it is in Brazil or maybe it is in some other country, but there is already a trade agreement between that region and the EU, and certain standards have been set, and we don't meet these standards, and it is our tough luck, because the market has been established or the standards have been established.

So it happens in trade agreements, but it happens outside of trade agreements as well. It happens just through the associations that are around the world that are trying to set

standards for the various products that are moving around the world.

So what we have to do is just continue to be very proactive and very engaged in the whole standard-setting process of the world to try and bring to it as much harmonization as we quite possible can, but I would also say American-friendly. We obviously want it to be friendly to American businesses, and every decision that we make should consider if this makes it harder for America to compete or easier for America to compete? So we want to continue to focus on standards and make it easier for America to compete.

Mr. Wolf. If you can submit something for the record telling us if there have been circumstances whereby we have been, over the last 10 years--which would go beyond your time up to now--whereby the standards have kept us from competing.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

#### GENETICALLY MODIFIED FOOD

Mr. Wolf. And in the interests of time, I want to leave at least 10 or 15 minutes for Mr. Serrano.

But that leads me into another issue. It is not your issue, but I think in your capacity of friendship with the President and going back to run his congressional campaign in 1978 that you told me that you ran or whatever, so you have known him for a while, I think people do use you to get word back, genetically modified food.

I was in Ethiopia where 11.5 million people are dying or are subject to dying because of lack of food. You go down in Zimbabwe, Mugabe is not allowing genetically modified food. The genetically modified food issue is going to begin to cut us out and the French are promoting it, and some of us--also bring about starvation and death.

In Uganda, with regard to bananas, Uganda is a relatively poor country faced with a terrible situation of Idi Amin and now AIDS. They are beginning to work their way out. The banana trees in certain areas are dying, so they have a genetically modified banana tree.

They are afraid to go in that direction, though, because if they go in the genetically modified banana tree, they will lose their markets in France. They will lose their markets in Germany. So the poor Ugandan--and if you have been to Uganda, the banana is a large staple, like rice, they use in so many other things. They don't know what way to go. I believe we have been relatively silent when you look at what the EU has given--we have this report which I will submit in the record--on the food issue. There are 30 million people, as I said earlier, that are subject to dying that are facing famine in the world. The EU has done very, very little. When you add in the genetically modified food, our companies cannot compete.

So I think it is important that we be aggressive in speaking out, because, one, it will cost lives, but, two, we will also lose business.

I don't know if you have any comment about the genetically

modified food issue, but it is one that is very, very important to the economy, but I would say equally important to keeping people alive that are going to die without it.

Secretary Evans. Mr. Chairman, when I leave my office every night, my desk is clean except for one piece of paper. It is a piece of paper that is a newspaper article that I read when I was in South America about 4 months ago. It was a cover of the newspaper, and it was a story about a mother who was selling three of her children, selling three of her children to feed the other four. And it was a mother in Zambia. And it was another one of those countries that has felt like they should not accept genetically modified food because they are worried about what it might do to their health, or they had heard it might be unsafe or unhealthy.

And so just be assured that it is an issue that is very high priority to me and this Administration. We are speaking out on it. I haven't seen a single minister from that part of the world that I haven't talked about it; in fact, that I haven't put it at the very top of the list. I do point out to them the great famine that is taking place in that part of the world while they study the issue.

And so know that we are very conscious of it. Know that we are very much aware of it. And know that it is an issue that I think is very important to this world. As you say, while some are studying it, people are dying.

Mr. Wolf. Well, I think they are, and I think you have to say things 10 times before it resonates. The poor countries are caught in a bind. Many of them would like to move and take the genetically modified food, but they are afraid because some of our allies are telling them if they take that, it will contaminate the food supply system, and, therefore, they are going to lose their markets.

And so you get a country like Uganda who wants to go that way; 50 percent of the banana trees are dying, but they are afraid if they go that way, they are going to be cut off at the knees, and there will be no markets. So as we are talking to the ministers from Zambia and Uganda and Ethiopia, which is important, but it also is important to talk to our friends in the EU, particularly the Germans and the French and those countries, because they are literally exploiting these people.

I sent a letter yesterday to Kofi Annan, and I sent a copy of it to the White House yesterday, asking him to appoint a special envoy on behalf of the U.N. In the area of hunger, genetically modified food, and to go around the world asking them to deal with this issue and deal with the issue of others because of all of the foods being donated in Africa and different places.

And, frankly, I don't think the Administration has done a very good job of telling the story. It has done a good job, but you are hiding your light under a bushel basket. Fifty-one percent of all of the food, fifty-one percent of all of the food in the world for hungry people, is coming from the people of the United States. Fifty-one percent. The EU and all of the nations like that combined in that area was 27 percent, and last year they were below the 27 percent. It is like Dietrich Bonhoeffer talked about cheap grace. That is cheap grace. They talk about it, but you have been involved in the campaign, have

you ever heard someone say, I want to help you, I will be there? But I am not there. And I will talk about it. You had the event, but the check never comes in.

There are promises, and they are talk and conferences, but they are not giving the food to Ethiopia or to Eritrea, the other place, Mauritania and all of the different places. As a result of that, they feel no pressure because nobody is saying, French, you are not giving the food. The Italians, the Italians ought to be flooding Eritrea, because if you go to Eritrea, there is Italian architecture, they used to control the country. The same in Ethiopia.

But the administration ought to put pressure, friendly pressure--I mean, these are our friends, we certainly want to be allies with them--that they should give. And I did do a letter to the President yesterday asking that the President contact Kofi Annan to ask him. There is a special envoy for AIDS, which was a very appropriate thing the U.N. did; now with 30 million people ready to die because you put AIDS on top of famine.

The U.N. ought to have this person, and this person can work with Jim Morris, who was appointed by this Administration, can work with former Congressman, my good friend, Tony Hall, can work with the U.N., but can go around to those who have not given--and I might say parenthetically so we are not just--the Chinese have given zero, zip, almost nothing--but to go to some of these countries and ask them, in order to help the starving people of the world, would you give? And a large portion of that is genetically modified food.

The others will be for the record, except for one other thing. NOAA we didn't spend the time I wanted to spend, but I would like to know, the early warning system with regard to famine, does NOAA put out a monthly report that is published nationwide and particularly sent to the ambassadors, perhaps, of the countries that are here in the United States, or also have offices at the U.N. Saying, our projections are for next year a famine, for this will be taking place, this will be taking place?

Do we get the information out so that the world knows, so that the different countries, whether it be in South America, Central America--I understand there is ready to be some famine, I was told--I couldn't believe this--in Central America, in Honduras and Nicaragua and Guatemala. But does NOAA put out any bulletin or notify anyone with regard to the good work that they are doing and what the outward projections are?

Secretary Evans. Two comments, Mr. Chairman. I don't know if we put out a monthly report or not. I will check on that.

Mr. Wolf. Or quarterly.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Secretary Evans. I don't know exactly what we put out, but I will find out. I know that we talk to the other countries around the world with respect to expected weather patterns in their country.

Second point is, though, that one of the most important elements of the President's Global Climate Change Initiative in

this year's budget is to cover the world's oceans with a global ocean observing system so we have better information as to weather patterns of the world. Right now we have about 40 percent of the world covered. The reason that we hear about El Nino and La Nina is because we have that part of the world covered. We have lots of buoys out there, so we can pick up weather patterns, and we know what is going to happen out there. To make good decisions you have to have good data.

Secretary Evans. I have to have 100 percent of the world covered. That is the direction we are going. So not only will I check and see how it is we are communicating the weather patterns of different countries around the world, all of them, but particularly the emerging countries, developing countries as you are pointing out and sensitive to. But also just know how important--how much emphasis we are putting together a global system so we will have better information as to where famine may or may not occur in a part of the world.

Mr. Wolf. You may want to bring people in from some of these developing countries to train them, maybe a fellowship for 2 weeks or something whereby they can come back and see how we do it. I think you develop the relationships and also the expertise.

I will submit the rest of the questions for the record.

I will recognize Mr. Serrano.

Mr. Serrano. I will be brief. I don't want to keep the Secretary any longer.

Mr. Secretary, one of the things I have noticed is the worst-kept secret in Washington, that you are very close to the President and that you advise him and that you comfort him. Be aware that the next home run Sammy Sosa hits will be his 500th home run. I think that is going to depress the President, because he traded him. So I wondered if you advised him to trade him.

Secretary Evans. No, I wasn't part of that decision, no. Only the good decisions.

Mr. Serrano. So you told him to keep Palmeiro. Get rid of Sosa. But just be aware that that could hurt him in some way while we celebrate in this country.

I want to take a moment to publicly thank you and NOAA for the ceremony that was held in my district on December the 5th. Admiral Lautenbacher came out to the Hunts Point community where they are taking advantage of the educational opportunities available at the weather station. It is a group of young people that now have their own weather station. All of a sudden there is even talk about local New York-type TV and radio stations going to Hunts Point for some young people through NOAA to give them some information.

I would also like to commend NOAA in general for the excellent job they have done, in association with minority-serving institutions, to expand educational research opportunities. The House report to accompany the Fiscal Year 2003 bill directed the National Institute of Standards and Technology to review NOAA's program to interact with minority-serving institutions and to report back on its efforts to introduce a similar program. I want to thank you for the report we received last month giving many examples of grants, fellowships and collaborations between this and minority-

serving institutions. I think they are making a good start, and I hope they strengthen existing ties and continue to develop new opportunities with minority-serving institutions.

I will submit for the record a question to follow up on this, but I wanted to publicly commend you for the work you have done. You know that is an issue for so many of us for a long time, and you have done well, and we congratulate you on that.

Secretary Evans. Thank you very much, Congressman.

Mr. Serrano. I would like to take this opportunity to State the fiscal year 2004 budget proposes to suspend Public Telecommunications Facilities Planning and Construction grants. Elsewhere in the budget, \$80 million is set aside for digital conversion grants to be taken from \$380 million already appropriated and advanced for the Corporation for Public Broadcasting to produce or acquire programs for public television or radio. That is more than a 20 percent cut.

You don't have to defend that idea. That proposal goes to a different subcommittee. But I do have two questions for you.

First, even if we agree that the two digital conversion grant programs should be consolidated, why should it go to the Corporation for Public Broadcasting? The Public Telecommunications Facilities Planning and Construction program is older, more established, has more stringent requirements and has a good track record as a well-run program. Why not keep the program here? And about one quarter of the Public Telecommunications Facilities Planning and Construction grants are for things other than digital conversion. Who will pick up the other equipment and facilities grants?

Secretary Evans. Congressman, I have to tell you I haven't looked at the pluses and minuses of having the funds in one organization over another. I am more than happy to do that. I do acknowledge the good work of the agency you commended over the years and it has done a good job in the conversions. So why one as opposed to the other I am not sure, but I would be glad to take a look at it and get back to your office.

Mr. Serrano. I appreciate that.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Also, on the issue of El Salvador, I like your idea of creating a new U.S. and foreign commercial service post in El Salvador to promote trade in the region. But I want to clarify a fine point about your proposal.

You asked for this post in the 2003 budget along with several other new items, all tied to a \$10 million fee increase. In this year's budget, you propose to continue these fee-funded programs in fiscal year 2004 for the extent of actual collections, and that is the quote from the language. Now in the fiscal year 2003 omnibus bill we provided \$1,650,000 in direct appropriations, not dependent on collections, to cover the cost of a new presence in Central America. What are your plans this year for the new post?

Secretary Evans. We will open a post there, and it will most likely be a regional post. It will cover not just El Salvador but the countries in that immediate region. I am not sure exactly what the division of labor will be, but we

certainly will have a senior commercial officer, sir, in that post as well as some support staff. So the office will be open this year.

Mr. Serrano. Let me encourage you to continue, of course, to do anything you can in promoting our presence in Latin America and certainly in other parts, as the chairman has well established.

With that in mind, I just have one question that just came to mind that I asked your predecessor once.

Notwithstanding the fact--I know this is a touchy subject for some folks--that we have no relations with the Republic of Cuba, does the Commerce Department take time to look at what it would look like if that were to happen?

You know, there is--when I first started talking about this subject 12 years ago, I used to get about three votes on the House floor for any kind of a bill that looked like it was opening up the relations between Cuba and the U.S. As you know, that has changed dramatically. My Republican colleagues have, to my amazement, my satisfaction, taken those bills and made them into amendments and now pass by 300 odd votes, not as far as I would like it to go but certainly a long way.

Is the Commerce Department not allowed under present rules and regulations under present law to begin to look at what it would be like if we had open trade with Cuba?

Secretary Evans. Well, I am not aware of any law that would prevent us from doing that, Congressman. I am not aware of us doing it, though. But if it is something that you would like for us to consider, I would be glad to take that request under consideration and then get back to you as to whether or not it would be appropriate for us to do it.

Mr. Serrano. Sure. I would like that.

I would like, Mr. Secretary, just in case some things continue to change, where would the Commerce Department be in advising folks in this country what to do and how to do it and where to do it? I mean, I am sure we should know what Cuba has to offer us and what Cuba needs from us other than friendship. So that time may come and you know, for me, as you know, that is a very delicate subject. Because here we are talking about all the trade we have with China, and the same people who support trade with China are the people who do not support trade with Cuba, and last time I looked I think they had the same kind of Government. So I would hope that you could start to look at it, because I suspect things are changing really fast.

Secretary Evans. I will certainly take that under consideration, Congressman.

But just one more quick point about Central America. As you know, we entered negotiations with Central America with respect to a free trade agreement. So make no mistake about how important that region is to this Administration, to this President who has been there, to that region. So not only are we going to open up an office in El Salvador, but we are also looking forward to negotiating with that region a free trade agreement over the next few years.

Mr. Serrano. Okay. I thank you for your presence. I would hope that you would advise the President to invite Sosa to the White House, but don't discuss the trade.

Secretary Evans. Thank you, Congressman.  
Mr. Wolf. Thank you, Mr. Secretary. We appreciate your testimony here.  
The hearing is adjourned.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Thursday, May 22, 2003.

THE EFFECTS OF CHINESE IMPORTS  
ON U.S. COMPANIES

OVERVIEW

WITNESS

FRANK VARGO, VICE PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS  
Mr. Wolf. Our hearing will begin.

At the outset let me say this is going to be a day where there is going to be a lot of votes, apparently. So we are asking the witnesses to keep their testimony to 3 minutes. I know that is brief, but this is not just a show situation where there is going to be a hearing and it is over. All of your testimony will be gone through. Christine and the staff will be working with you. The purpose of this hearing is to do something constructive and positive about this issue.

So I would ask in respect for those who have come from out of town that we limit this to 3 minutes when you come up here. I know that is a brief, brief period of time but we have a lot of witnesses.

We wanted to do this before we began to mark up our bill. That is why we have rushed this. This is a closing day of the Congress, so maybe the closing day or day before. So because of that, if you could do that, we would very much appreciate it.

Good morning, today, the subcommittee will hear the experiences and the concerns of a number of American businesses about increased imports from the People's Republic of China, and we will review the efforts of U.S. Trade-related agencies to support American businesses in this regard.

This committee has funding responsibility for a number of trade-related agencies, including the Departments of Commerce and State and United States Trade Representative, and the U.S. International Trade.

In the coming weeks we will be making a decision on the fiscal year 2004 budget. Therefore, it is important for us to understand the effectiveness of these agencies in helping America's small and medium-sized businesses deal with the consequences of increasing imports from China.

Today we will hear from the National Association of Manufacturers, a number of business owners, officers of manufacturing companies, pharmaceutical and chemical companies, and agricultural interests, the farmers. We welcome you all and again, I appreciate you all showing up.

The purpose of the hearing is not to review international trade policy, but to highlight the particular concerns of American companies about the impacts of imports from China. The



subcommittee has heard concerns that the Administration has not been very favorable and has unfairly favored Chinese businesses at the expense of American companies and antidumping cases. These allegations are very deeply troubling to me and, hopefully, to the entire Congress, and they are more startling given the sharply increasing U.S. Trade deficit numbers.

Last year the United States trade deficit was at an all-time record of \$435 billion dollars. This is the highest trade deficit in the Nation's history. Some are predicting it to soon top \$600 billion. The numbers for China are even more startling. According to the Census Bureau in 1985, our trade deficit with China was \$6 million, million, not billion, but million.

In 1995 it was \$33.8 billion, B billion. Last year, it was \$103, B, billion. If you do your math, our trade imbalance with China has grown to an astronomical 107 million percent since 1985. Put another way, our trade imbalance with China was greater in the past half an hour at about 935 than in all of 1985. I, for one, am deeply concerned there's not been sufficient amount of attention focused on the possible long-term impacts of trade imbalance on the country and, especially, its impact on jobs. Fortunately, this Congress, and there may be some differences, we are going to pass a taxpackage to help create jobs, and for the Administration then to be asking us to do this with regard to jobs with the tax package, and then allow jobs to dissipate and go out abroad, does not really make any sense. So this hearing is about jobs. This is about recovering the economy. This is about having people having places to go to work. According to the Bureau of Labor Statistics, the U.S. has lost more than two million of its manufacturing jobs in the past 5 years, a greater than 12 percent decline. According to one report, this has been the worst decade for manufacturers since the great depression. Right now, 27.5 percent of our manufacturing capacity is sitting idle. Some would say that a manufacturing sector isn't all that important in this high-tech economy. I don't agree. Without a manufacturing base, our country cannot be as competitive on the global stage, and we are also exporting high-tech jobs in the same way as we are exporting manufacturing jobs. As recently as the year 2000, U.S. received about seven times as much foreign direct investment or FDI as China. Now, China has surpassed the U.S. In FDI. In fact, China, FDI in China, is up 51 percent this year. In the U.S., it is stagnant.

At the outset of the hearing, I want to say that I did not vote for PNTR with China. I have been a long-time critic of the human rights violations of the People's Republic of China and continue to be concerned that the values we, as Americans, hold dear, freedom of speech, freedom of press, freedom of religion are not the values shared by many of our trading partners, especially China.

I can spend the entire time documenting human rights violations which continue unabated in China, but this a hearing today is not about human rights in China. While I disagree with the direction of our Nation's trade policy with China and question the wisdom of not only this Administration, but past Administrations and Congress, inregarding to trade relations

with China, the bottom line is the U.S. And China are now trading partners. Accepting that reality, however, I continue to believe we must do everything possible to ensure that trade with China is fair, and that U.S. Businesses, especially small and medium-sized businesses, are not cut off at the knees by products dumped into our economy by China. We have to look at what our policies are when it comes to dealing with imports from China and make sure American companies are able to compete on a level playing field. We are losing too many jobs to stand by and let products from China flood our markets.

Again, the administration has to deal with this issue because if you are passing the tax cut to help American businesses to stimulate the economy, it is not to stimulate the economy in China so we can buy more Chinese goods, but it is to stimulate the economy in the United States, to put American men and women with dignity jobs back to work and not have your own government that you are funding and paying with your taxes be, basically, an adjunct in supporting the Chinese Government. That's absolutely inappropriate.

I recognize Mr. Serrano for any comment, and we will go to the first witness, Frank Vargo, Vice President, National Association of Manufacturers.

Mr. Serrano. Thank you, Mr. Chairman. I would like to join you today in welcoming our guests for today's hearing. As you may have been aware, I have been a supporter of efforts to continue to normalize trade relations with China. Now, some of you who have been to hearings before may know that there is a little behind-the-scenes conversation going on always at these hearings as to how long it will take me before I bring up the subject of Cuba. Well, this time it is easy, because when you talk about trade with China, I think the natural question is why China and not Cuba? And while some may want to revisit China and some may be opposed to trade with both, I am on the opposite side. I think we should trade with both and as soon as possible with Cuba and continue to grow.

Now, as the Chairman knows, one of my favorite Presidents was the former President Clinton, and I respected his intelligence, and I remember asking him once, ``Mr. President, why China and not Cuba?'' and this brilliant, and I am not being sarcastic, I think we all agree on that, Rhodes Scholar, high-IQ President gave me such an honest answer that it was a painful and sad answer. He said, ``China's big.''' and therein lies perhaps what's wrong with our foreign policy on trade, the fact that we do deal with one and not with the other.

So I would hope that today we discuss the issues that the Chairman wants to discuss, but I hope also that we continue to pay attention to the fact that trade is more than trade. Trade is good or bad, lack of it, foreign relations. A lot of what happens in the world, a lot of how we influence what happens in the world, I think, has to do with whether or not we have good relations with people.

So if we fear, if we are concerned, if we do not like the Chinese model of government, I think the best way to deal with that issue is to continue to get closer to them. And so if we do not like what is happening in Cuba, whether it is our business or not, I think the best way to go is to trade with them.

The big difference for me, and I will close with this, is

obviously, it is two separate issues in that in the Chinese-American community, there is no Dade County, Miami that controls the issue. Otherwise, we would not trade with China at all, and the fact that we somehow for years have felt that we can ignore Cuba or push them around, and we know that we cannot ignore China or push them around.

So while it is not my intent at all to hurt American businesses, it is also my intent to make sure that American businesses trade wherever possible, and with whomever possible, and so I respect the Chairman's words. I believe that he has taken on a very serious issue and one that he believes deeply in in terms of the behavior of our trading partners, but I think the idea should be to bring more people closer to us rather than to keep people away from us.

Thank you, Mr. Chairman.

Mr. Wolf. Thank you very much, Mr. Serrano, Mr. Taylor would like to make an opening comment? Mr. Taylor.

Mr. Taylor. Mr. Chairman, thank you very much. Coming from the heart of furniture country, and the major manufacturer s will be testifying today, I certainly want to say that I agree with what you said earlier. I share the vision that trade is not a supplement to one country's wealth at the expense of another. It should be trade where both countries experience advance for both their economies.

It is almost impossible to think of a trade growing 107 million--percent in that short period of time and not envision that there are not some problems that need to be recognized.

The question is China using surrogates to dodge America's laws and quotas? Are patents and copyrights being copied and used in illegal manners to gain trade advantages? Are trademarks being violated, as several magazines have reported in the last 12 months, to sell goods under false names at lower quality? These are all serious questions I think we need to answer and see if any of those statistics play a part in this enormous trade increase on the one side.

Thank you, Mr. Chairman.

Mr. Wolf. Thank you, Mr. Taylor. In the interest either Mr. Regula or Mr. Sabo or Mr. Pitts would like to make a comment, you are welcome to.

Mr. Regula. Mr. Chairman, I will use my time on introducing my guest.

Mr. Wolf. Sure. Mr. Sabo.

Mr. Sabo. Thank you, Mr. Chairman.

Just briefly, I, fundamentally, do not understand how we can describe a trade policy with a country that we have over a hundred billion dollar trade deficit with as being fair. Something is wrong and desperately wrong. It is a one-way track. It is a massive subsidy of our hard American dollars into one country. At times I observe, I don't pretend to be a trade expert, but I fear that we are becoming a country that cannot produce anything. I am not sure that without China, we would have clothes today. I just think it is desperately wrong, and when trade is so one-way, there is something desperately wrong with our trade policy, and I thank the chairman for this hearing.

Mr. Wolf. Thank you. Mr. Pitts or Mr. Peterson, either one.

Mr. Pitts. Thank you, Mr. Chairman. Thank you for giving me

the opportunity to provide an opening statement in support of ensuring free and fair trade for our U.S. Businesses.

I am here today in support of Anvil International, which is on your first panel, which has major facilities in Columbia, Pennsylvania, my congressional district. Anvil International, producer of malleable, nonmalleable and ductile iron pipe fittings, as well as steel pipe nipples, hangers and couplings. In addition to their foundry and production facility, Anvil also operates a nationwide distribution organization consisting of five distribution centers that supply a wide range of construction products to the commercial building industry, has a total of 12 manufacturing plants in the U.S. And Canada, and employs 2600 employees. Anvil has one remaining foundry located in Columbia. They combined the operation of their former Statesboro, Georgia, plant at the PA facility and had originally planned to add two more jobs in Pennsylvania, but coupled with unfair imports and the slow economy, these additional jobs were not realized in Columbia. Instead there are a hundred less employees at that plant today. Fifteen years ago there were seven foundries in the U.S. Today only Anvil and Ward remain in this industry, and Anvil joined Ward Manufacturing in the filing of two anti-dumping cases against Chinese imports of malleable and non-malleable fittings in 2002. They share a similar concern that the end result with the nonmalleable duty margin has not benefited the company and instead has led to an increase in imports. With this in mind, I testified for the ITC in support of Anvil and ensuring that this vital U.S. Industry is protected from further harm caused by unfair trading practices. Anvil is facing stiff competition from Chinese fittings producers, and in a time when the State of our national security is of utmost importance, we cannot afford to have this industry vanish from our economy.

The nonmalleable case has been completed. While the ITC issued a unanimous 4-0 final decision, an injury the final anti-dumping margins issued by the Department of Commerce were in the single digits, and instead, first quarter 2003 data actually shows an increase of 10 percent as compared to the first quarter of 2002. And so their case is pending before the Department of Commerce. We will also be considered by the ITC, and I commend Mr. Fish of Anvil for his clear commitment to making quality products to serve Anvil's customers.

However, they also know that the company needs to make a return on investment. They need to be certain that this administration, that the Commerce Department does everything possible to see that these laws are enforced and that appropriate actions are taken to ensure that they and other companies are able to compete in this global trade environment.

So it is my hope that the subcommittee will pave the way for necessary enforcement of our trade laws, and thank you, Mr. Chairman, for permitting the testimony this morning.

I yield back.

Mr. Wolf. Thank you Mr. Pitts. Mr. Peterson do you have anything?

Mr. Peterson. Thank you, Mr. Chairman.

I join Representative Pitts in support of Ward Manufacturing and Anvil. Ward Manufacturing is in northeastern Pennsylvania. They used to have 1100 workers, now have 800

workers, and have found this unfair competition could be deadly on their future. And I guess everything I was going to say, Mr. Pitts has just shared in statistics, so I will wax more philosophical, but as was stated earlier by Mr. Sabo, you wonder sometimes what we are going to manufacture in this country. And I recently lost two furniture factories to China imports, so I just closed two particle board plants. I never thought that bulky particle board would be something that a country so far away could compete with us on, but they are using European particle board to make the ready to use furniture. These plants, one was 10 years old and one was 12 years old, this was new, latest technology in America plants, that had huge investments made in them, and are now sitting idle after just 10 years of operation.

If we cannot make particle board as bulky, what can we make sheer that can compete? I guess, one part I would like to add is Ward and Anvil's concerns that the Department of Commerce allowed the Chinese producer in this investigation to provide fraudulent information that, in turn, resulted in a greatly compromised result in terms of the final dumping margins.

Mr. Gleason also notes that he and others in the industry were shocked to learn of these single-digit margins after knowing that both Mexico and the European Union found dumping margins against malleable pipe fitting imports from China in the ranges of 42 and 48 percent. That is pretty devastating when you find out that our information is that much different, from 10 percent to 42 and 48 percent.

Ward has said here: It is concerned that absent the strong enforcement of trade laws by the Commerce Department and by the Administration, there will be a limited and bleak future for the fittings industry, and I am saying, for the manufacturing industry. I recently was with Congressman Regula and Jack Murtha when they chaired the Steel Caucus, and I asked the former Secretary of Commerce and the President's economic adviser and trade adviser at a hearing Mr. Regula was chairing, and I said to them, is there anything on the list that is vital to the future of America's defense that we must maintain the capacity to manufacture and process in this country, and there was a long pause and the three of them looked at each other. I knew then, they did not have an answer.

One, the politician, Mr. Daley, who very nicely said, well, everybody would want to be on that list. I said, no, everybody should not be on that list. Is there a list? He said, no.

So it appears, as a country, we have not looked at what do we have to produce here to be able to defend ourselves? What is vital for us to produce to be this powerful Nation we have always been? I think we better be inventorying that. I think we better be looking at that. What capacity do we have to remain in this country? I am not interested in being part of a country that serves each other food and serves each other with diaper services. I just think it is time that we have to demand fair trade, and if we don't enforce the trade laws, they are not worth the paper they are printed on. And I think there has been a weakness for a long time. I do not think there is enough people in that Department or staff. They are overwhelmed, and we better put some resources there that demand fair trade, and if we do not, I fear the future, long-term future, of this

country.

Thank you.

Mr. Wolf. Mr. Vargo, first witness, please.

Mr. Vargo. Thank you, Mr. Chairman.

It is a pleasure to testify before you, and thank you for your support of American manufacturing.

I have an exhibit here showing what you stated about manufacturing having lost two million jobs in just the last 33 months, and as you can see from the various colors on the graph, all States, other than Nevada, have shared in this loss. Trade has been not the most important reason, but a very key reason, for this overall loss and the key factor there has been the over evaluation of the dollar, which fortunately is now coming back into line. But within this, China, has played a very important role.

As you have noted, the trade deficit with China has grown very rapidly. It is now about a third of our overall trade deficit in manufacturing. For 20 years, we have had a trend of 20 percent import growth from China and 12 percent export growth, and that has brought us to a hundred billion dollar deficit. It has been up \$50 billion in the last 3 years, but if those trends continue for five more years, 20 percent import growth and 12 percent export growth, we will find within 5 years, by 2008, we have tripled our trade deficit with China to over \$300 billion. We cannot let that happen. China is also the world's fastest growing market. We need to bring the trade back into balance not just on the import side, but on the export side as well.

China's been closed to us. It only had opened up after it came into the WTO, it is only beginning to. Enforcement as you noted is something we have to really press. Many people feel this deficit is due to American companies having gone over to China. So far, that is not the case and the Commerce Department figures show that only three percent of our imports from China come from American affiliates there.

However, that could change because we have talked. So many of our members now say the cost of production in China is so low, and the cost of production in the U.S. keeps rising because of health care and regulations and all these things, that we could be just at the beginning of a movement of a lot of our production to China.

So as we look at this, as we look at the trends of if you see we can boost our export growth to 25 percent a year or 30 percent a year, if the import growth from China moderates, then this can come under control, but we cannot let things just go.

So this hearing, I hope, is the just the beginning of your process, Mr. Chairman.

As you look at the Department of Commerce and USTR and Customs, you are going to hear a lot. I would just like to point out a few things you might want to keep in mind. Implementation of the WTO. My prepared statement contains an example of semiconductors where the Chinese charge a 17 percent value-added tax on foreign semiconductors, but if you design the chip and build it in China, it is only three percent. To me that is open and shut, they are violating the WTO regulations. Semiconductors are vitally important to this country. We have to do something about it, not 2 years from now, but now.

The exchange rate. We believe the Chinese rate is undervalued by about 40 percent. That is not immediately under this Committee's jurisdiction, but it is the single most important factor, and we cannot ignore it.

Counterfeiting. China is the epicenter of counterfeiting in the world. It affects large companies and small. So many small companies tell us that they export one product to China, the market dries up because it is counterfeited, and the market disappears. We need a massive export promotion program. China's just beginning to open up. We are beginning to return to our competitiveness against the European Union and other countries. This is the time not to just put a little bit more on. We need a, massive export promotion in China, or we are just not going to see those numbers change.

We need to ensure that trade is market-driven. When there are instances of subsidies, these things have to be addressed.

Mr. Chairman, just to conclude, we have a serious problem with China, but if we do not start addressing it soon, it can become a critical problem. Thank you very much, Mr. Chairman.

Mr. Wolf. Thank you, Mr. Vargo.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Wolf. I am really not going to have a lot of questions.

One, we are going to deal with it, period. We are going to use this Committee to deal with this issue. I am going to do everything I possibly can. I may fail, but I may not, and we are going to stay with this issue. The fact is, when I get an issue, we generally stay with the issue. It took me three times to get elected in Congress, lost in '76, lost in '78, won in '80. We may have to come back next year, but we hope to do it this year.

Secondly, I would like to say, do you see anything now, aside from what we are talking about today, that is going to change that figure if nothing happens? Nothing comes from this hearing? Is there anything that is going to change your projection for the next 3 years?

Mr. Vargo. One thing may, and that is, some of the imports from China, particularly in electronics, have been at the expense of Japan and other countries whose share has really fallen. And as China works its way through eating their lunch, so to speak, there may be some slowdown in the import trend, but the fundamental answer to your question is, no. If we leave things the way they are, we are going to have massive problems that will overwhelm us, but, Mr. Chairman, I just want to say two things, if I could.

I know your determination. When I was in the Commerce Department, I used to come talk to you about MFN and Romania, and you were very good and determined on your position.

Secondly, what I would like to note is that China has pluses as well as minuses. We need a positive approach, and I know that is the approach this Committee is going to take.

Mr. Wolf. If you recall President Reagan, God bless him, signed the bill that we had to take away MFN from Romania because they were persecuting people. Even though Reagan was a

free-trader on that, I think. I appreciate your comments.

What I want to ask you, and we will not go through it with every witness, we would like to get all of you back together in my office a week or two after we come back from the recess where we can sit around to talk about it. We cannot rewrite the trade laws in this Committee. I don't have that authority, but I would like to see what we can do constructively to make a difference. So we are going to get back together again with everyone that is here afterward. If everyone can call Christine and talk to her, whereby we will have a time and maybe we can bring the Commerce people up, sit around, not be under the three-minute rule, and deal with the issue of what can we constructively do. So everyone will be asked to call Christine after the hearing to work out a time where we all come together.

Mr. Serrano.

Mr. Serrano. Just one quick question, sir.

Some of the difficulties in this new thing for us, this new experience with China, is that, based on China's recent entry, let us say, into markets throughout the world or in other words, is it a matter of the Chinese putting together the kind of trade team, if you will, that can be on par with other countries?

Mr. Vargo. I think one thing we are seeing is that as the State owned enterprises and the central control in China begins to diminish a little, you are seeing more entrepreneurship. You are seeing more movement into new products, but part of it, is I do not know, and I am not a China expert. I do not know if they know what their prices are or their costs are. One hears that loans in China are nonperforming, 25 percent at least maybe 50 percent. So if companies do not have to repay their loans, and if they do not really have market-driven prices, you know, that could explain a lot.

But I want to keep coming back to the point, we need a very positive agenda. We need to use our trade laws, absolutely, but we also really need to press to get our sales up to China and bring it more into balance.

Mr. Serrano. Thank you.

Mr. Wolf. Mr. Taylor.

Mr. Taylor. Would you say the currency is having anything to do with the lack of competition in the sense, manipulation of the currency by the Chinese of their own currency?

Mr. Vargo. Absolutely, Mr. Taylor. They froze their currency at a very low level. I think very much for the purpose of having an export advantage in the world. We believe it could be undervalued by as much as 40 percent, and that gives them a tremendous advantage.

The Chinese Business Press has said a number of times, this is what makes our exports dirt cheap, and it is something that we cannot ignore.

Mr. Taylor. I personally experienced in the nineties a Chinese purchase of a piece of equipment from a company in my district. They bought one piece and after reverse-engineering it, that company is no longer in business in my district. In fact, it isn't at all. Do you see that in a number of areas? Have you documented that in any extensive way?

Mr. Vargo. Congressman, it is across the board. It is



endemic in China for large companies and small, everybody suffers from it. No foreign trademarks are registered in China, only Chinese, and that to us is a violation of WTO, again, and China's obligated by its bilateral agreement with the U.S. To prevent counterfeit products from leaving China, and they are not doing that either.

Mr. Taylor. There was a magazine, I don't have it in front of me today, that reported just a few weeks ago about the number of nationally known trade names that were being manufactured and counterfeited in that way, and sold as a national trade name but without the quality and the production in China, and I do not think it was in collusion with the company at all. It was just that they used that name and then produced this product.

Mr. Vargo. It happens across the board, Congressman. It is a problem that we want the U.S. Government to deal with. Increasingly, we have started working with Commerce and USTR, and we certainly appreciate the committee's support. We also hope that Customs has enough resources to stop counterfeited goods from coming into the U.S. In addition to doing all the essential work they have to do against terrorism.

Mr. Taylor. Well, how can the United States if it is so prevalent that I see it and you see it and people all over the country see it, how can we allow this to go on, this rogue trading, which is so obvious that any of us ought to be able to investigate and stop it?

Mr. Vargo. Until China came into the WTO, it really was not subject to international rules. So they have been subject to international rules only very recently. A lot of emphasis has gone into the proprietary software and recording industry, and manufacturers have just been a little slow getting off the mark in saying, what about us too, because of all of our products are being copied? So we are pressing on that. We are finding we are knocking on open doors with government agencies, but we need to move quickly.

Mr. Taylor. Well, if it is being so, almost uniquely, abused, then should the American Congress take a step that we put everything on hold until this is straightened out, or do we have to go through years and years to try to work our way out, how to negotiate piece by piece what is illegally being done?

Mr. Vargo. I do not think that we ought to be waiting at all. I think we have tools now and that we just need to use them.

Mr. Taylor. Thank you. Thank you, Mr. Chairman.

Mr. Wolf. Mr. Sabo.

Mr. Sabo. In some way this isn't new. Isn't it sort of a repeat of what happened with Japan for the recent years?

Mr. Vargo. It does have that flavor.

Mr. Sabo. I watched for years when we had the huge trade deficit with Japan. They clearly had a policy of promoting exports not producing for local or internal consumption. It has finally caught up to them in a negative fashion, but at least as it relates to the United States, that is clearly what's going on, but in some ways what I find even more troubling as it relates to our policy, it is my understanding most other countries do not have the same type of trade gap that we do?

Mr. Vargo. No, they do not. I do not think that other

countries were as open to China as we were. And what we have to do is now is to take China's openness and we really have to increase our exports, our position in China a lot, and there is a lot of very positive opportunity for that. This is not just a one way solution, and I do not want to leave the impression that this is just an import problem. It is very much an export problem as well, and it is good for China to open up and be able to get those goods. It would be good for China to have a more realistic exchange rate, be good for their standard of living, be just a win-win as we press for China to really open up.

Mr. Sabo. How does Europe and Australia, how do all those countries avoid having the same problem we have?

Mr. Vargo. Their imports from China are rising rapidly as well, and there are a lot of concerns on their part when you talk to them. But in looking at the data, we have asked ourselves the same question, and we certainly would not mind having the International Trade Commission or others take a look at this question of, just why is our trade imbalance so much more than those? Europe sells more to China than we do and has bought a lot less.

Mr. Sabo. I hear you do not have a good answer to that question.

Mr. Vargo. I wish I could give you a good answer.

Mr. Sabo. I just think it somehow reflects our mentality of doing one-way trade that does not exist in other countries.

Mr. Vargo. China, using our number, has a trade surplus with us over a hundred billion dollars, and a global trade surplus is about \$30 billion. So they have a trade deficit together with the rest of the world of about \$70 billion. A lot of that is probably petroleum and others, but nevertheless the question is very valid one of why is the U.S. trade situation with China so different from others? I can only hypothesize, and my hypothesis is that many other countries were more closed to Chinese products over the years before WTO than was the United States, and if that is so, now that China has more access to them, we may see Chinese exports rising to them more rapidly than to us. That is a hypothesis. I would welcome some good economic research from Congressional research service or ITC or somewhere else.

Mr. Sabo. Does our government ever have any answer to that question?

Mr. Vargo. You will have to put that to the government.

Mr. Sabo. You may have more access to asking the question.

Mr. Vargo. It is one that we have an active interest in, and to the extent we have resources we can use for that, we will.

Mr. Wolf. Following up on Mr. Sabo's comments, if you would give us a series of these questions, we will ask the Library of Congress, the CRS to do this study. We will also ask the GAO to do this study and whoever else. We would like to get something back by the week after we get back after the recess. So if you can define some questions and put them down in writing, we will get that study done.

Mr. Regula.

Mr. Regula. I do not want to be repetitious, but if I hear you correctly, there is a violation in terms of intellectual

property, as well as reverse-engineering patents abuses, and so on in violation of WTO rules. So what's the point of their being part of WTO and why are not these rules being enforced by WTO?

Mr. Vargo. Well, again, they came into the WTO just recently. Time is that which keeps everything from happening at once. We all need to press, I think, to use the government, U.S. Government's resources, which are not unlimited into these areas, and the oil goes where the squeak is, and I think it is incumbent upon manufacturers to squeak more, and we are doing that.

Mr. Regula. Does the pressing have to be done from which Department, Commerce, in the executive branch?

Mr. Vargo. For intellectual property?

Mr. Regula. Well, all of these problems.

Mr. Vargo. Well, I think all the trade agencies really need to focus on this.

Mr. Regula. USTR.

Mr. Vargo. USTR has an important role, and we have raised this with USTR, and we believe they will be moving forward on it. But again, I was in the Commerce Department for over 30 years. It is a great agency. They do not have unlimited resources. I know this Committee does not have unlimited resources to give to them.

Mr. Regula. Thank you, Mr. Chairman.

Mr. Wolf. Mr. Vitter.

Mr. Vitter. I have nothing right now, Mr. Chairman.

Mr. Wolf. Mr. Peterson and Mr. Pitts.

Mr. Vargo, thank you very much. If you will be in touch with Christine, both on the study and then to pick a date where we all can gather and we can get Commerce to come on up and see what we can do.

Mr. Vargo. Mr. Chairman, I will be happy to do that. Again, we have great opportunities as well as challenges from China. We have problems, but it is important we go after the right problems and not the wrong ones.

Mr. Wolf. In a fair way.

Mr. Vargo. In a fair way.

Mr. Wolf. Thank you very much.

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Thursday, May 22, 2003.

#### MANUFACTURING SECTOR

#### WITNESSES

DAVID DYER, VICE PRESIDENT, HENREDON FURNITURE, MORGANTON, NORTH CAROLINA

THOMAS GLEASON, VICE PRESIDENT, WARD MANUFACTURING, BLOSSBURG, PENNSYLVANIA

THOMAS FISH, PRESIDENT, ANVIL INTERNATIONAL, PORTSMOUTH, NEW HAMPSHIRE

BRUCE CAIN, VICE PRESIDENT, XCEL MOLD AND MACHINE, N. CANTON, OHIO

WILLIAM LITZLER, PRESIDENT, QUICKDRAFT, CANTON, OHIO

Mr. Wolf. The next panel will be manufacturing, Mr. Dyer, Mr. Gleason, Mr. Fish, Mr. Cain, Mr. Litzler, if you can,

again, I apologize, keep it to three minutes or two and half. This is not your last opportunity. If you will, we are going to ask you to again gather, so why does not Mr. Dyer begin first? Mr. Regula.

Mr. Regula. Mr. Chairman, I would like to introduce two of the panel members from my district, and one is Mr. Bruce Cain from our area. He is basically a fulfillment of the American dream, and he has bought into the XCEL Mold and Machine, and has reached a point where he has a substantial interest in it, and he is being hurt desperately by the imports to the point that that they can produce and sell for less than he can produce, and the other is Mr. Bill Litzler from the Cleveland area, Bill is Chairman of the Litzler Company and employs 50 people in my district, and the same thing has happened. They are being impacted in a very unfair way, and I think these two gentlemen, along with the other panel members will point out the unfairness of all this. I think probably the goal of our Committee should be to ensure that these procedures are fair in terms of trade, and perhaps we need to get USTR and Commerce up here to tell us why they are not pressing ahead on the issue with WTO.

Mr. Wolf. I agree. Well, they are going to be in Panel Five, but we are also going to be talking to them off the record again too, so we will involve all the members of the committee, so we will let everyone know so everyone can participate and be involved. Maybe just go straight, right down, if you can limit it, I will appreciate it.

Mr. Cain.

Mr. Cain. Thank you. XCEL'S been in business since 1956. I have been there 33 years myself, and there are 11 employees been there longer than me. We have 60 employees. When I was invited to come here to testify on May 1, is when I was contacted, I decided to save auction flyers of companies that are going out of business, and in that time, in 22 days, I have saved 11 flyers.

Mr. Wolf. Will you submit them for the record?

Mr. Cain. I don't have them with me.

Mr. Wolf. Just send them; we will put them in the record.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Cain. I want to tell you about one company we quoted a mold for. I called him the next week to see how our price was. He said the price was great, but the mold went to China to be built for free just so they could run the parts over there.

From 1988 to 1998, our largest customer was Black & Decker. They were 35 percent of our business, and we have not built a mold for them since 1999. In 2000, one of our better customers started going to China. They sent two molds to China. In 2001 they sent seven. In 2002, they sent 86 molds, 65 of those going to China, the remainder going to South Korea. So it is a definite problem, and we need help. The small business detail, large manufacturers want this to happen. They are cutting their costs, they are building buildings over there. Things are going great for them, but it is really hurting us.

Thank you.

Mr. Wolf. Thank you.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Wolf. Mr. Litzler.

Mr. Litzler. I am Bill Litzler. We manufacture capital equipment to a variety of different industries. We have been impacted in the sense that our customers are going offshore, closing down or moving their production facilities over there. We are not directly being competed with by Chinese or Asian imports, but our customers are, and they are moving overseas to do it. The question was asked, the difference between Japan and China. I have sold to China. I have been sold all over the world. The difference between the two in this instance is American companies or multinational companies are actually investing and setting up in China, whereas in Japan you could not do that. They would only send to us or allow minority ownerships. So that is a fairly major difference.

We use a lot of subcontractors in northern Ohio for fabrication and machine shops and so on. The vast majority of those companies are down to one shift from what was three. If it was 50 people before, it is 10 people, and I think the only reason it hasn't been more dramatically made a crises is that many of the people are just retiring and kind of quietly going away, and this is a big difference. The industries we serve, one of our biggest industries is the printed circuit board industry. It was huge in the United States. Three years ago it started going to Asia. Right now, there is virtually no printed circuit board materials being made in the United States, none. We have a customer, all the plans are cut. First the ritual is pretty straightforward. First it was consolidation, big guys buy little guys, very typical. Little guys are gone, big guys handle it. Then American manufacturers have sold out to European manufacturers, who seem to have a somewhat longer view toward markets. Now, they are gone. And the trade show in this country three weeks ago for the printed circuit board industry was like a funeral. But the one in China, we had a man over in China, it was 30,000 people attended. It is gone. It isn't just down, it is gone, and it is not going to come back. We see this pattern repeatedly.

We are in the paper industry. The paper industry has got the same problem. Textiles, I can repeat what everybody else does. One by one these, industries are getting knocked out, and it is as if somebody in a big global sense said, maybe we do not have to be manufacturers here anymore. We will just be a service economy. But the service economy, if going overseas, we can buy software at \$18 dollars an hour in India on the Internet; \$18 dollars an hour for software.

Banks are doing their backroom operations in Asia. They are doing them in India. Call the American Express travel service, if you are a platinum member, the man that answers your phone is in Bangalore, India. The service economy is not working either. We are losing the base of good jobs overseas, and it is just getting worse. It isn't getting any smoother.

Thank you.

Mr. Wolf. Thank you very much.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF]

Mr. Wolf. Mr. Fish.

Mr. Fish. Good morning, Chairman Wolf, members of the committee. My name is Tom Fish, President of Anvil International. We are a producer of malleable, nonmalleable, and ductile iron pipe fittings, as well as steel pipe nipples, hangars and couplings. We have our own nationwide distribution organization consisting of five distribution centers located in major cities in the United States, and supply a wide range of construction products to the commercial building industry. We currently have 12 manufacturing plants in the United States and Canada, and a total of 2600 employees.

Prior to 2001, we had two foundries, one in Statesboro Georgia and one in Columbia, Pennsylvania. Due to our loss of market share to the low priced Chinese product, we found ourselves in a situation with excess foundry capacity. In an effort to solve this excess capacity problem and to reduce our manufacturing costs, we shut down our Statesboro foundry in 2001, eliminated 350 jobs and consolidated our foundry operations into our Colombia Pennsylvania foundries at a cost of approximately \$20 million. Our plan was to add about 200 jobs in Colombia as we combined the production and the equipment of two foundries into one. However, the net result so far has been instead of adding any jobs in Colombia, we have lost another hundred. And again, the result of loss of market share to the Chinese.

Shortly, Mr. Gleason will speak about our disappointment with the two dumping cases we have had already, but what I want to talk to you about for a minute is our pipe nipple business. Also, in 2001 we acquired Beck Manufacturing. They were the second largest pipe nipple producer in the United States. And we consolidated all of our pipe nipple operations in the U.S. From three plants into two to achieve cost savings. This happened at the same time we were having the 201 case investigation, and we thought we were doing the right thing, what the administration was telling the steel industry to do, consolidate, rationalize, and become more competitive. Tariffs were then imposed on pipe, which is our primary raw material, at 30 percent and similar tariffs at 13 percent on Chinese nipples. So what has happened since then? Well, the imports of Chinese pipe nipples from China is up 50 percent. The 13 percent tariff was--they absorbed it, and the volume continues to move overseas.

As I said, we have a plant in Canada, and we are having the same problem in Canada where nipples from China had taken as much as a third of the market share. Up there, our Canadian operation filed an anti-dumping case last year against pipe nipples from China, and we recently obtained preliminary dumping margins in the range of 100 to 200 percent. Now, that is great news for our Canadian operation. We have been doing much better up there. Unfortunately, these nipples have to go

someplace, and they are going to come down here, and we are seeing it as we speak.

We have contemplated filing another dumping suit against the Chinese on the nipple side of the business. We have already filed two and have not gotten any relief at this point in time, but if Commerce is not going to find meaningful dumping margins, I am just wasting my money.

My job as a businessman is to make profit for my investors. And my owners, right now, are telling me that my nationwide distribution system and all the costs that I have is not getting the return that it should. We have been very focused on making our own products and distributing those products. But it is becoming clearer to me and to our owners that we can make more money importing products from China and selling them and shutting down our manufacturing plants, and this is really what the crux of the problem is. We talk about deflation. I know there was a lot of talk about deflation in Washington. I see it everyday. Hundreds of products that are used in the construction market are now being sold for half of what they were sold for 5 years ago. If you want to see it, go into a Wal-Mart or go into a Lowe's and ask for a US-made fitting, nipple, any kind of product like that that is used in the plumbing business. You will not find them. These imports from China are deflationary, and I know everyone's already talked about the dollar and the fact that the Chinese dollar is fixed. Again, another problem that our government, we looked at it, and nothing is being done.

I am not a big political person, but I have spent a lot of time in Washington over the last 2 years, and I have met with our two Republican Senators, I am from New Hampshire, and one Republican Congressman. Our largest manufacturing facility is in Columbia, Pennsylvania, where we have 900 people now, and every chance I get, I try to tell my Congresspeople that the economy, it matters, and what's happening is you are seeing American jobs going overseas and the Administration is supporting that. I mean it is just letting them go.

So I thank you for your time and the opportunity to testify, and I hope that your Subcommittee can also have some influence on Commerce as we move into our next dumping case and get our final duties.

Mr. Wolf. Thank you.

[The information follows:]

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Mr. Wolf. We are going to try, Mr. Gleason, if you can limit it. We are going to have to vote pretty soon too.

Mr. Gleason. Good morning, Chairman Wolf and members of the Committee, Congressmen Peterson, Pitts thank you for being here. We applaud your courage for this, and I thank you for this opportunity to testify here today.

Word is there are only two fitting manufacturing facilities left and Ward is one of them. We were founded in 1924. We have gone from 1100 to 800 jobs. We have been fighting these imports from China for a long, long time now. Our experience with the dumping laws has been completely disappointing. Along with

Anvil, we filed an anti-dumping case in February of 2002, on nonmalleable pipe fittings from China and in October of 2002 on malleable fittings from China. In the nonmalleable case, we received unanimous preliminary and final injury determination by the ITC, but our final dumping margins against the two foundries from China that participated in the investigation were only single digits. Given the Chinese prices are roughly half our prices, these margins had little impact. In fact, in the first quarter of 2003 imports from China increased by 10 percent. This is in a market where the demand is lower. The same is true for the malleable imports, which increased by 76 percent in the first quarter of this year, in spite of the fact that we have got a dumping case against them. They went up 76 percent, and that is after a hundred percent increase the year before.

How did the Commerce Department find such low dumping margins against these producers who are less efficient than we are? The only answer I can come up with is that the Department just plain allowed the Chinese foundries to lie to them about their factors of input quantities, and I understand that this is the heart of the dumping investigation.

For example, the largest foundry in China, JMC, has stated repeatedly in both cases that it does not record the actual weight of each input included in each charge, the actual weight of each charge with the total number of charges fed into the cupolas each day. They do not record their inputs. Their costs, they are not recording them. I have been in the foundry business for more than 30 years, and I know that this is not true. It is simply a bold-faced lie. I believe even the ancient Egyptians, who started the foundry business, recorded these factors of input.

When another Chinese foundry, Pannext, stated that it weighed and recycled iron before they're reintroduced into the cupola to ensure that the steel-scrap input ratio was correct, we heard through back channels that the other Chinese foundries and their counsel went ballistic about this truthful admission, and the next response that the companies gave us was basically that they had to retract their statement.

Even more shocking to us is that just before we file filed our cases, both Mexico and the EU found dumping margins against malleable pipe fittings from China of 42 and 48 percent. How can the Commerce Department find single digit margins when the rest of the world is finding 50 percent?

After receiving low margins and witnessing further increases in China imports that threatened to force us to shut down our foundry, we have contemplated a safeguard case with a Section 421. However, having seen the President twice deny relief to industries that have one won cases at the ITC, we have decided not to pursue this remedy. For the people of Tioga County, Pennsylvania, it appears to us that the President and his Administration have taken the side of the Chinese and not the American manufacturing workers. The Administration and Congress talked about tax cuts and job creation, but who is talking about job preservation in the face of sky-high monthly trade deficits? Trade deficits rob the U.S. manufacturing and agricultural jobs, there's no doubt about it. Our company can either keep 800 Americans working and possibly rehire 300 back



at wages of \$14 an hour, plus health benefits or the same workers can go to State unemployment benefits and pursue alternative jobs that may pay minimum wage and no health benefits. All we can ask for is real enforcement of the trade laws passed by Congress.

On the behalf of the employees of Ward Manufacturing, we wish to thank you, Chairman Wolf, for having the courage to have this hearing.

Mr. Wolf. Thank you. Mr. Gleason.

[The information follows:]

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Mr. Wolf. Mr. Dyer.

Mr. Dyer. Good morning, my name is Dave Dyer, and I am the Senior Vice-President for Henrendon Furniture Industries headquartered in Morganton, North Carolina. At the outset, I would like to thank the Subcommittee and Representative Taylor for this opportunity to comment on China's impact on the domestic furniture manufacturing industry.

Our company began in 1945 with just 75 employees and a modest product line of three chests. Today we employ more than 1400 skilled crafts people in four state-of-the-art plants in North Carolina, covering more than two million square feet of manufacturing, finishing, and distribution space. In 1996, the dollar value of all residential furniture imports from China was roughly \$440 million. By the end of last year, imports shot up to \$3.2 billion, an astounding 15 fold increase in just 6 years.

Mr. Dyer. Unlike our Chinese competitors, our industry is heavily regulated from OSHA to EPA. Where many Chinese factory workers are paid only a few dollars a day, our hourly employees average between \$11 and \$16 an hour, while some of our most highly skilled crafts people can earn more than \$20 an hour.

Faced with this challenge, we concluded that to remain competitive required us to supplement our product lines with furniture and fabric components sourced from overseas, all over the globe. Currently, our imports represent 30 percent of our overall product line. In furniture, imports have been a strategy for some 15 or 20 years, but we manage the imports; with the Chinese threat, it is now managing us.

While there are no easy solutions to the challenges of manufacturing and retailing in a global economy, there are three steps that we believe will help level the playing field when it comes to trade with China. The first is to ensure that China, like any other trading partner, is playing by the rules. The dramatic increase in furniture imports from China has raised legitimate questions about whether the country is dumping low-cost furniture products into the U.S. market. Therefore, it is imperative that the ITC and the International Trade Administration have the necessary resources to effectively administer and enforce the Nation's anti-dumping laws, and provide relief to the domestic industries that have been injured by unfair trade practices.

The second is to beef up protection of intellectual rights. Furniture manufacturers face a serious problem with theft involving a unique manufacturing process or a distinctive

furniture design or mechanism. We urge the U.S. Government to continue working with Chinese authorities at all levels of their government to improve China's IPR enforcement.

Finally, increasing exports is essential to our industry's long-term competitiveness. We encourage the ITA to continue its efforts to identify and eliminate barriers to foreign markets, also, that makes it difficult for U.S. manufacturers to do business abroad.

While Washington can be an effective advocate for American business overseas, there are steps that we must take on our own to build on our competitive advantage. In recent years, we have developed a leaner, more competitive and productive workforce. We have implemented cellular manufacturing, a continuous improvement process, and have implemented the tenants of Toyota production system. We also yearly spend millions on state-of-the-art technology to enhance our competitive advantage.

Mr. Chairman, we are proud of the truly world-class furniture produced by our dedicated employees, and we feel strongly about remaining a predominantly domestic manufacturer, but we are not invincible. It is reassuring to know, however, that our elected officials take an active interest in understanding the many challenges facing our interests. Thank you.

Mr. Wolf. Thank you, Mr. Dyer.

[The information follows:]

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Mr. Wolf. I have no questions. We will get together. And it seems to me that you are all saying that you don't have a lot of confidence in the Commerce Department. Is that a fair statement? Is there anyone that disagrees with that? And, secondly, this is about jobs. And the Administration, in pushing its tax package--and rightly so, which I support--is talking about jobs. And yet, as we are putting in this tax package to help jobs, the jobs are coming out from the bottom. So I think we definitely need a change. I see the Department of Commerce representatives over there. I just wonder what they are thinking when they hear all of you testify. So thank you for taking the time. Be intouch with Christine. We will gather again to talk and see what we can substantively do rather than just have a hearing and walk off and nothing happens, to see if we can honestly make a difference with regard to fairness. We thank you very much.

Mr. Serrano.

Mr. Serrano. A quick question. Mr. Litzler, are you familiar with the MEP program, I understand.

Mr. Litzler. Yes.

Mr. Serrano. What are your thoughts, very briefly?

Mr. Litzler. It has been very, very beneficial for us. We first got into it about 4 years ago in Canton, and it has helped us be far more--it has helped streamline much of our manufacturing process. It is almost embarrassing how much better it allowed us to become, because it told us how bad we might have been before. But it has forced us--it has caused us to go back and redesign many of our products to enhance the

manufacturing capability. It has been a tremendous asset to us, made us a much better company. Allowed us to produce our goods at lower cost, which is always a tremendous advantage.

Mr. Serrano. Well, we are a big supporter of that program. And it may be more embarrassing to all of us that advised the President foolishly to cut it out of the current budget. So I think we have to work hard.

Mr. Litzler. I am not a politician, either. But I think for the lousy hundred million dollars of cost to the MEP program, it is--I used the expression once before, it is chump change when it is something that can actually help manufacturers be better. And we have to be made better. And it encourages us because it underwrites the initial study and understanding of what you can do better. We have read about lean, and I think we have got a nice management team. But we never had the time or effort to get into it. And they came out and did a good study which was part of what the funding was for, and we paid for the rest, we put 40 or \$50,000 into that to make us better. It is a very, very good program.

Mr. Serrano. Well, I think Mr. Litzler, with that comment on chump change, you might have just saved the program.

And Mr. Fish, we are going to work hard to get you a Democrat to talk to in your State. It is getting very lonely. Thank you so much, gentlemen. Thank you all.

Mr. Wolf. Mr. Taylor.

Mr. Taylor. Mr. Chairman, I know Mr. Dyer's company and the history of the company, and it has been a leader in North Carolina which has been a leader in the country. I will quickly ask a couple of questions. You mentioned means of staying imbedded, Mr. Dyer. Does your company export any furniture products? If so, what has been the company's experience in reaching foreign markets?

Mr. Dyer. We presently export about eight percent of our volume. To China, nothing. Of course the consumer there doesn't have the wherewithal to get what we have. But Japan, South America, Saudi Arabia we have had some success.

Mr. Taylor. You have an innovative process. And what is your competitive advantages with the Chinese in your company, if you compete with them directly?

Mr. Dyer. We have a whole organization within our organization that is focusing on improving and driving out waste. I don't see that in the plants that I have toured in China. But they have such an advantage where it is 20 to one that we have got both our arms tied behind our back.

Mr. Taylor. At last month's furniture show in High Point, based on the sales and the attendance at the international home furnishing market, what was your impression about the industry and what is going to happen in the third quarter in this industry?

Mr. Dyer. First of all, we thought that, we were all afraid that nobody would come to the event. Usually there are about 80,000 people from all over the world. People did come. It was a little better than what we expected. But it seems in the furniture industry the end of the tunnel is always two quarters away. And that just keeps moving. Nothing to write home about, but we are at least able to run our plants somewhat.

Mr. Taylor. Have you been to China and seen the

manufacturing?

Mr. Dyer. I have.

Mr. Taylor. What is your opinion?

Mr. Dyer. I know what their national bird is, it is the building crane. The infrastructure was tremendous. The plants had more people than we would ever put in a plant. The week or week and a half that I was there, it was hazy the whole time. I question the air quality. In the plants that we toured, did not see the attention to safety and care for the employees that we have. But, an awful lot of money going into that country.

Mr. Taylor. Thank you. Mr. Dyer, we appreciate your coming today. And thank you, Mr. Chairman.

Mr. Wolf. Thank you.

Mr. Regula.

Mr. Regula. I appreciated the comments of Mr. Litzler on the manufacturing extension partnership. We have funded that for a number of years. The administration calls it corporate welfare, and I think I would paraphrase it by saying it is job welfare. That, the ability to get the information that it provides you, is it an important element in the preservation of jobs in your industry?

Mr. Litzler. It has been tremendously helpful in that it introduced us, and in a very aggressive form, to how we can process and produce our products more simply and better. Absolutely. I resent the opinion of corporate welfare in the sense that it is, in effect, a loan that is more than amply paid back with good paying jobs and income tax and all the other provisions. It is a tremendous advantage to us. And it is being multiplied--and we are one little company. We have got roughly 100 people. It is being multiplied, at least in northern Ohio, through an awful lot of other companies, big and small, that see the value in this.

Mr. Regula. Mr. Cain, do you think that, in China, the lack of environmental regulations, the lack of worker safety standards, the lack of any element of much in the way of care for the employee does give them a substantial competitive advantage? And, of course, these things are all promulgated by government here.

Mr. Cain. It definitely gives them an advantage. They don't have to pay near what we have to pay. Their hourly wage is another thing that is not even close to what we pay.

Mr. Regula. No, I understand.

Mr. Cain. But, yeah, the benefits alone. And we are an older company, I mean, as far as employees. Like I said, the average tenure of our employees is 25 years. So you are not-- they don't care about the employees over there. That is not a factor for them at all. I don't see that ever being a factor for a long time from what I know of people going over there.

Mr. Regula. Are there any environmental standards at all? I know you have to meet them.

Mr. Cain. No. They have none, that I know of. I have never been there personally. Some of these other guys may know.

Mr. Regula. Somebody mentioned hazy, and the hazy conditions when you were visiting the plant was probably contributed by the lack of any environmental requirements. Would that be your impression? I don't know which one of you mentioned it.

Mr. Dyer. I did. I think that was my thought.

Mr. Regula. Note the yeses for the record.

Thank you, Mr. Chairman.

Mr. Wolf. Mr. Vitter. Mr. Weller. Mr. Peterson.

Mr. Peterson. Yes, Mr. Chairman.

I just want to share with you--I don't remember the person's name, but I was at a dinner shortly after this Administration came in to power. And I was sitting with a lady who had a major job in the trade office and she was very complimentary. She said it was the hardest working crew she had ever seen, but she said it was just a handful of them.

And for all of the trade cases and all of the issues all over the world that they had to deal with, she said they came to work at 7:00 in the morning and are working at 7:00, 8:00, 9:00, and 10:00 at night. And she said it was the best crew of people she had ever seen, but there was absolutely no way they could get their arms around it. And I think, maybe, is something we ought to be looking at. Do we have enough people to enforce our trade laws? And if we don't, there is no way they can. I mean, you can't do it with a handful of people. This is a huge issue today, I think. So I just wanted to share that with the Chairman.

Mr. Wolf. Thank you, Mr. Peterson.

I want to thank all of you. Just follow up with what Mr. Regula was saying. There are no wage and hour, there are no environmental, there are no OSHA, there are no family leave. I was in a Beijing prison Number 1 in 1991, where 40 Tiananmen Square demonstrators were making socks for export to the United States. I picked the socks off the line. When we got back, I had it tested by Commerce. They were for export to the U.S. These were Tiananmen Square demonstrators in a cold, brutal Beijing prison number one. We went into the prison, and then after we got into the prison, they had the hosiery operation. I have the pictures. And then we asked Commerce to go in. They finally got in, under the Clinton Administration, they finally got in, and by that time they cleared the place out.

So they have none of these. Harry Wu I saw earlier was in a gulag for 17 or 18 years. They are making products in slave labor camps. There are more slave labor camps in China today than there were when Solzhenitsyn wrote the book Gulag Archipelago. And we have a list of products that are coming out of those camps, and sometimes they come out of the camps and they are--and who runs the camps? The Peoples Liberation Army. So, none of these are. That is why the administration ought to focus with regard to those things.

And so, you know, this is not a hearing on human rights and I don't want to get started on that issue. But, no, they have none of those requirements. I thank all of you for your testimony. And if you all can be in touch with Christine so we can follow up to see what we can do. But thank you very, very much.

And then the next panel, chemical and pharmaceutical, Mr. Walter, Mr. Cossart, Ms. Carus. If you can also keep your testimony to three minutes, we would appreciate it very, very much. We can begin. Why don't we begin first on the list, Mr. Walter and Mr. Cossart, Ms. Carus. If you can keep it for three minutes, we would appreciate it.

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Thursday, May 22, 2003.

CHEMICAL/PHARMACEUTICAL SECTOR

WITNESSES

WILLIAM WALTER, CHAIRMAN, FMC CORPORATION, PHILADELPHIA, PENNSYLVANIA,  
ACCOMPANIED BY DOUG PARKER, PRESIDENT, INTERNATIONAL CHEMICAL  
WORKERS UNION COUNCIL, LOCAL 76C, FMC PERSULFATE PLANT IN  
TONAWANDA, NEW YORK

BENOIT COSSART, BUSINESS DIRECTOR, PHARMACEUTICALS INGREDIENT, RHODIA,  
INC.

INGA CARUS, VICE PRESIDENT, CARUS CHEMICAL COMPANY, PERU, ILLINOIS

Mr. Walter. Thank you, Mr. Chairman and Ranking Member  
Serrano.

Mr. Wolf. And for all of you, your full statements for all  
the witnesses will all be in the record.

Mr. Walter. Members of the subcommittee, I am Bill Walter,  
Chairman, President, and Chief Executive Officer of FMC  
Corporation, a \$2 billion diversified chemical company. Let me  
try to summarize my written statement.

FMC was one of the leaders in support of the PNTR. We sell  
to, manufacture in, and export from China. We believe having  
China in the WTO is important to FMC, and we believe it is  
important to the U.S. Economy. However, China's membership in  
the WTO has brought with it challenges that we had not  
anticipated. The Administration notes in its 2003 trade report  
``serious problems'' in some areas of. One of the most serious  
concerns posed by a non-market economy is the challenges posed  
by verifying that their behavior follows WTO rules. We  
understand that administering our trade laws with respect to  
China pose unique challenges, and we applaud this Subcommittee  
for addressing what needs to be done to improve upon current  
practice.

FMC's case against dumped Chinese persulfates may provide  
the Subcommittee with some insight as to what is going on with  
trade in China. As a background, persulfates are an essential  
and widely used family of industrial chemicals, a wide variety  
of end uses ranging from etching of printed circuit boards to adhesive  
in carpet backing. FMC is the only American manufacturer of this  
important chemical. We produce sulfates in our Tonawanda plant. In  
1997, in response to a complaint we brought, the Commerce Department  
placed a 43 percent duty on dumped Chinese persulfates. However, in  
subsequent annual reviews, that duty has been substantially reduced,  
and in 2001 and 2002 reviews, the duty placed on Chinese persulfates  
was zero. In other words, Mr. Chairman, the dumping duty went from 43  
to zero--43 to zero--while the facts from our perspective in the case  
did not change but rather the Department's methodology of judging  
whether dumping was occurring did.

This difference is in the result itself. It is, at least  
our experience, in the very period when Chinese joining the WTO  
our government relaxed the application of its own standards as  
applying to China; and I think as you have already heard, and  
will hear from others, we are apparently not alone in

suggesting the government change the way they apply the rules.

Specifically in our case, the Department changed the surrogate company against which costs are measured. This is at the core of the Department's methodology and fundamental to the result. They also did not follow their own standards for evidence, and gave the Chinese exporters the benefit of the doubt through the appeal process. FMC has had dumping cases before the Department before. We have won some, we have lost some. But this is the first time in our experience that the way the rules are applied changed midstream.

Mr. Chairman, in my written testimony, we suggested some potential remedies for the current situation. These fall under the category of applying more and more focus resources on the Chinese dumping cases. We make these recommendations on the basis both of the large and growing volume of dumping cases against the Chinese and on the special circumstances particular to nonmarket economy cases.

Let me conclude by saying that we are very concerned about the economic consequences of the results in our case. We have invested over \$50 million in recent years in our Tonawanda plant to keep it globally competitive. We are not looking for protection. We do not support the Byrd amendment. However, we do ask that the concerns of a globally competitive operation be fairly heard. If so, we believe that U.S.-based operations can sustain its global leadership.

I am pleased today to be with Mr. Doug Parker, the President of our union in Tonawanda. Mr. Parker has witnessed a 40 percent decline in the well-paying jobs our persulfate plant offers since the Chinese product came into our own market. His union, along with the management, have sacrificed together to keep our competitive edge, but we can't sustain this if the playing field is not level. Mr. Chairman, with your permission, I would like to turn to Mr. Parker for some brief additional remarks, and thank the committee for its consideration.

Mr. Parker. Mr. Chairman, my name is Doug Parker. I am president of the International Chemical Workers Union Council, Local 76C at the FMC persulfate plant in Tonawanda, New York. It is an honor to be here today.

On behalf of the 65 remaining union employees, let me emphasize our commitment to making our FMC persulfate plant the most competitive facility in the world. Because sacrifices made by our union members in Tonawanda, FMC's made-in-America persulfates are sold throughout the world. But because of what the Chinese are doing, I cannot say that I will be here a year from now saying the same thing.

Mr. Chairman, in the last five years, as the Chinese have invaded our markets with below value persulfates, we have lost 40 percent of our employees in Tonawanda. During this period union leadership has worked very close with FMC management on initiatives that increase our productivity. We have reinvented ourselves to meet the increasingly competitive demands of the global chemical markets. We have taken on more work with less people, and we are very proud of our accomplishments. In light of the sacrifices my fellow workers have made, Mr. Chairman, I have a hard time explaining to them why their own government cannot be a part of our team. Why do Americans have to lose their jobs at the expense of the Chinese workers? Why is our

government undercutting the efforts made by our company to be the global leader in the persulfate chemistry? In short, I will ask you the same question I asked representatives in Washington: Why can't my government support this sort of management, labor cooperation? If this Administration is looking for economic stimulus in the upstate New York, they should start by addressing the unfair Chinese trade practices.

Mr. Chairman, we don't need our government to protect us. All we ask is that you join our team before it is too late. Thank you.

Mr. Wolf. Thank you very much.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Wolf. The next witness is Mr. Cossart.

Mr. Cossart. Yes, good morning, Mr. Chairman and members of the Committee. I am Benoit Cossart, business director for Pharmaceutical Ingredients Business Unit of Rhodia, Inc. Until March of this year, my business operated the last United States aspirin plant. The plant was located in St. Louis, and for many years was owned and operated by Monsanto Company. For the past five years, it has been owned and operated by Rhodia. At its peak, our plant employed close to 100 people. When it was closed, 60 people lost their jobs.

In May 1999, we filed an anti-dumping petition against imported aspirin from China. At that time, Chinese aspirin was being sold at prices in many cases less than half of our price. Our plant in St. Louis was losing money, and our largest customers in the generic market were rapidly switching to Chinese aspirin.

Almost from the beginning of the anti-dumping case, the Commerce Department began shifting its methodology and sources for information. For example, phenol is a major raw material used to make aspirin. Only a few days before the final decision in our case, the Commerce Department used domestic Indian price to value phenol, in the case of sebacic acid, for example. For the aspirin case, however, Commerce used import pricing to calculate the value for phenol. There is a significant difference between Indian domestic and Indian import prices, and this decision by Commerce impacted the aspirin cost calculation by 20 percent.

Turning to another issue. Commerce also changed methodologies with respect to overhead. In the original investigation, Commerce recognized that the Chinese aspirin makers were fully integrated producers. That is, the Chinese producers were producing aspirin in a three-step process. The problem with calculating overhead costs arose because the Indian surrogate companies were not fully integrated but only practicing one of the three steps. For example, Andhra Sugars only produced aspirin, it did not produce the upstream chemicals, salicyclic acid and acetic anhydride. The other two surrogate companies only practiced step one, they did not even produce aspirin.

In the original determination in 2000, Commerce tried to account for the fact that Chinese aspirin producers were fully integrated but Indian surrogates were not. On appeal to the



Court of International Trade, the court remanded this issue to obtain an explanation why such an approach was supported by the record. Today, Commerce takes the opposite approach. Commerce presumes that the Indian and Chinese companies are equally integrated. In the end, Commerce changed its methodology in a manner that placed the burden on U.S. producers to supply information from companies in India. We were asked to supply information about companies that we didn't even believe should be used as surrogates. In my view, this change in methodology was devastating to the anti-dumping order. Commerce was, in effect, rewarding the Chinese producers for finding the annual report of this company but it has not imposed any burden on the Chinese to submit evidence showing that the company was fully integrated.

I sincerely hope that our experience will not be shared by other U.S. industries. And I thank you for the opportunity to testify.

Mr. Wolf. I thank you very much.  
[The information follows:]

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Mr. Wolf. Ms. Carus.

Ms. Carus. Thank you, Mr. Chairman. My name is Inga Carus, and I am senior vice president of Carus Chemical Company. Carus is a small, family-owned company founded by my grandfather 88 years ago. We are the sole remaining U.S. producer of potassium permanganate, a chemical that is used in water treatment and other strategic applications. Carus has 205 U.S. employees, and is based in Peru, Illinois. We thank our Congressman, Jerry Weller, for attending today.

Carus is the world's low-cost and most efficient producer of potassium permanganate. Despite this, we have had to obtain an anti-dumping order against unfair imports from Chinese producers who sell at less than world material costs. That is to say, less than the raw material costs that it takes to produce the product.

In recent years, unscrupulous Chinese exporters have used illegal means to attack the anti-dumping order. Let me briefly summarize two particularly outrageous examples. The first example is the 1999 review of the Chinese producers Zunyi. In that review, potassium permanganate was smuggled from China in a shipping container marked ``tools and toys.'' because permanganate is an incendiary material, this smuggling violated hazardous materials laws and placed the ship's crew in grave danger. Additionally, the smuggling is of concern because permanganate is a DEA-controlled precursor chemical for cocaine production, and has been found in domestic and foreign terrorists.

Second, a particularly alarming example is from the 2000 new shipper review. We have recently learned that in that review, the Chinese exporter, Groupstars, fabricated virtually the entire case. In quotation marks, it made up factor values, it forged production and financial records, and it lied to the Commerce Department about the actual producers of the product. This review is terminated only because Carus was able to show

that Groupstars had forged its Chinese business license.

Based on our experience, we have serious concerns about the administration of our dumping laws. We are concerned that the Commerce Department has no direct means of sanctioning parties that routinely certify false information in dumping cases. We are concerned that fraud uncovered in trade cases is not more aggressively investigated and, if necessary, prosecuted.

Finally, we are concerned that the continuation of illegal tactics and future reviews will eventually lead to the unjustified loss of the anti-dumping order. This could well cause the demise of Carus, a significant employer in the Illinois Valley region, and leave North America without any manufacturer of this important chemical and accompanying services despite our low-cost, efficient, and advanced technologies and processes.

Mr. Chairman, we thank you and the subcommittee for your interest in these critical issues. We urge you to examine specific proposals to address fraudulent and unfair trade from China. This is no academic exercise. The futures of many U.S. companies and their employees hang in the balance. Carus strongly supports free and fair trade with China. However, Congress and the U.S. Government must take steps to assure that this trade is fraud free. Thank you.

Mr. Wolf. Well, thank you very much. I appreciate the testimony.

[The information follows:]

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Mr. Wolf. And I would ask that all three of you be in touch with Christine, or four of you.

Ms. Carus, I would ask for information, because based on what you are saying--and I appreciate Mr. Weller bringing this. I am going to ask the FBI to investigate this. So if you give us all the data, all the information, I am going to be the FBI. The FBI happens to come before this committee, too. And we are going to ask the FBI.

So I think your charges, you should be very, very careful though. It is important not to say anything unless you have very good information. So, give us all the data, all the information, put it in the record. We will get it over to Director Mueller and ask that they have a team. We will also get a copy to Attorney General Ashcroft, because--we will also get a copy to the DEA, because if anything with regard to drugs.

So be very careful, because reputations are involved and things like this, and we want to be very responsible. But we will take this and we will ask the Bureau, the Attorney General, and DEA to take a look at it. And we will put the results of that in the record so people can see it.

With that, we have a lot of questions which we will be dealing with you as we talk a back and forth. With that, I will recognize Mr. Serrano.

Mr. Serrano. I have no questions.

Mr. Wolf. Mr. Vitter. Mr. Kennedy.

Mr. Kennedy. Thank you, Mr. Chairman. I just had a couple

of questions regarding trade in general. I don't know whether this is the proper time or we have another panel coming up.

Mr. Wolf. It probably would be better for the administration panel, if you can. I mean, if there is a question, go ahead.

Mr. Kennedy. No, that is fine. I think the issues they brought up I will be able to bring up in the next panel.

Mr. Wolf. Fine. Mr. Weller.

Mr. Weller. Well, thank you, Mr. Chairman. As a member of the House Ways and Means Committee, I appreciate the opportunity to serve as a guest on your Subcommittee today and the opportunity to participate in what is a very, very important hearing. And I do have some questions I would like to direct to Ms. Carus, but let me begin by saying I am, of course, a strong advocate of free trade. I support normal trade relations with China. I welcome China as part of the World Trade Organization. And of course, as part of the World Trade Organization, we in the United States Congress expect China to honor its commitment to follow the rules. And of course, as testimony has been provided today, there is serious concern they may not be, and it appears that they are not.

Ms. Carus, you noted in a case where you are the sole domestic producer of potassium permanganate, a substance that is very important for the American economy in many, many ways as well as health and drinking water.

Ms. Carus. Right.

Mr. Weller. You stated in your testimony how Chinese companies have, according to your testimony, provided false information to the United States Department of Commerce and their ability to get around anti-dumping orders. I was wondering, from the standpoint of your company and from the standpoint of your employees, what has this meant to Carus Chemical? Of course, an employer in my district. What has it meant in terms of lost productivity and wasted resources that have taken you away from going about doing your business?

Ms. Carus. It has meant a very high amount of cost in defending the anti-dumping orders, specifically as relates to the fraud charges. We have spent probably half a million dollars easily in the last 10 to 12 months just defending the fraud charges or investigating the fraud charges that the foreign entities have been making. And that is a significant drain on our resources as a small company. Half a million dollars we could do a lot with in our company in terms of improving manufacturing processes and so forth.

But in addition to that cost to us, as a company, we are very concerned as U.S. taxpayers, because there is also a significant amount of work being done at the Department of Commerce, some of it really that shouldn't be. For example, the 2000 review, the new shipper review would have never occurred had Groupstars given their real date of its business license. In addition, the Department spent thousands of dollars traveling to China to verify two plants that weren't the actual producers of the product, that Groupstars admitted to in a subsequent filing. So this is wasted money. This verification trip to China should have never occurred. That is a lot of money as a U.S. taxpayer that I am very concerned about.

Mr. Weller. Ms. Carus, you identify Groupstars as a company

which provided false information. Are there other companies, Chinese companies that have also performed in a similar way?

Ms. Carus. In terms of--yes, there is another one called Wego Chemical in New York out of Long Island.

Mr. Weller. Which is a Chinese-owned company?

Ms. Carus. I don't know that. I don't know that.

Mr. Weller. Well, you raise your concern regarding the Department of Commerce, and of course as it has work to implement its anti-dumping order and to investigate what is occurring with what appears to be very unfair competition and misleading competition by one particular Chinese company and perhaps others. Do you believe that it is reasonable that Chinese companies that provide false information, that have committed fraud, have shipped potassium permanganate under extremely hazardous circumstances, and of course have now admitted providing false information to the Department of Commerce--do you think they should be allowed to come back year after year and challenge the anti-dumping orders after this record of performance?

Ms. Carus. No. Absolutely not. I think it should absolutely be prosecuted. That kind of behavior seems to be allowed to be occurring. And I think the Commerce Department needs to consider ways to better address fraud in the Department. It should consider ways of sanctioning parties that repeatedly submit routinely certified false statements.

I know from my conversations with the DEA that they have what is called a long-arm provision of the law. I don't know if this is something that could be adopted by the Commerce Department, but under this long-arm provision, they have the ability to criminally prosecute foreign entities that are known to be manufacturing illegal drugs specifically to import to the United States. I would think such a long-arm provision for the Commerce Department would be appropriate in these cases where they would have the ability to prosecute foreign entities that are known to be committing fraud on U.S. companies to the detriment and to the injury of U.S. companies like ourselves. That is just a thought, but I think it is worth looking into further.

Mr. Weller. Mr. Chairman, thank you very much for the courtesy of allowing me to participate. I appreciate your personal interests in this issue that has been raised by Ms. Carus. And as a member of the Ways and Means Committee, I will certainly share the information that has been gathered today with our Trade Subcommittee in the Ways and Means Committee as well.

Mr. Wolf. Well, and thank you, Mr. Weller.

Mr. Weller. Thank you, Mr. Chairman.

Mr. Wolf. And you are fortunate. Mr. Weller, when he gets involved in an issue, marriage, penalty tax, he stays with it until he is very, very successful. So I am glad to have him join us with regard to this.

Does this Chinese company Groupstars have an American law firm?

Ms. Carus. Yes, they do.

Mr. Wolf. What is the name of that law firm?

Ms. Carus. Representing them?

Mr. Wolf. What is the name of the law firm?

Ms. Carus. I don't have that name handy. We will provide

that for the record, if that is okay.

Mr. Wolf. Do you think that law firm knew that--I guess the law firm has dropped the company knowing that fraudulent data was sent.

Ms. Carus. I don't think so.

Mr. Wolf. Or do they continue to represent them?

Ms. Carus. I don't think so.

Mr. Wolf. We want to know what firm represents the company, and we want to know if you can write them or we will write the firm to see how from the Canon of Ethics that we teach at law school--I am a graduate of Georgetown Law School, one of the good law schools in the country--from the Canon of Ethics, what is the responsibility? In fact, we will write the American Bar Association based on your information to find out, what is the responsibility of a firm that is representing somebody that they knowingly--now, do you think the firm knowingly knows that there were fraudulent data? Has that been proven?

Ms. Carus. We have shown it on the record.

Mr. Wolf. Okay. Well, let us see it so that we don't--I mean, the firm may very well not know. And if they don't know, I don't think it is fair to be blaming them. But if you can give us this, and we will write to the ABA on the Canon of Ethics to see if that is a problem.

Ms. Carus. Okay.

Mr. Wolf. With that, we thank you all. If you will be in touch with Christine. Thank you very much.

[Clerk's note.--Subsequent to the hearings, the following information was provided]

#### Counsel for Chinese Parties

##### 1999 Administrative Review

William E. Perry, Garvey, Schubert & Barer, 1000 Potomac Street, N.W., Fifth Floor, Washington, D.C. 20007.

##### 2000 New Shipper Review

S. Stephen Spring III, Spring, Spring & Associates LLC, 8939 Jefferson Highway, Suite E, Baton Rouge, LA 70809.

William E. Perry, Garvey, Schubert & Barer, 1000 Potomac Street, N.W., Fifth Floor, Washington, D.C. 20007

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Thursday, May 22, 2003

#### AGRICULTURAL SECTOR

#### WITNESSES

JON VESSEY, VESSEY AND COMPANY, CALIFORNIA

PHIL GLAIZE, THIRD GENERATION GROWER, WINCHESTER, VIRGINIA

PETER BARTON, CHAIRMAN, HUDSON VALLEY FRUIT GROWERS, HIGHLAND, NEW YORK

Mr. Wolf. We are blessed that they are not calling for a vote. About a half an hour ago they said they were going to be in 15 minutes. So, the panel three, agricultural sector, Mr. Vessey, Mr. Glaize, and Mr. Barton. If you could limit it to 3 minutes each, we will appreciate it very much.

Welcome. Mr. Sweeney from New York wants to be here, too. I

know he is at another meeting and trying to make it. He specifically wanted to make sure that you knew. But why don't we begin in that order, Mr. Vessey, Mr. Glaize, and Mr. Barton. If you can limit it to 3 minutes, we would appreciate it very much.

Mr. Vessey. Thank you, Mr. Chairman.

My name is John Vessey. I am president of Vessey and Company, a California fresh garlic producer, and a family farming operation in its fourth generation. Our garlic industry was nearly destroyed 10 years ago by a surge of 54 million pounds of Chinese garlic imports. A dumping duty of almost 400 percent was imposed in 1994. That duty saved our industry. Until last December, the duty was still applied to all the Chinese exporters. Two Chinese exporters were recently excused from the duty by Commerce. However, our industry has greatly been harmed again by a tidal wave of Chinese imports in the past 2 years.

In 1995, 3 million pounds--3 million pounds per year through 2000, but the imports spiked to 16 million pounds in 2001, and to 54 million pounds last year. This is demonstrated by our first chart.

For the first quarter of 2003, Chinese imports were almost four times greater than the first quarter of 2002. If the trends continues, Chinese imports for 2003 will be about 150 million pounds, far more than we produce in California. There are three reasons for this. I will explain in detail in my written comments that I have given for the record. Let me summarize each one.

First. Millions of pounds of Chinese garlic are illegally shipped through third countries. This is reflected in the first chart, with the dark area representing a trend ship product and the white area identified as garlic imports from China. Customs has greatly reduced trend shipments since it started testing garlic imports last summer. There are two problems, however. First, Customs has stopped testing the imports. Second, the funding for the testing program is in jeopardy. Mr. Chairman, Congress should ensure the crucial testing program is kept in place.

A second reason for the 54 million pound import surge is Commerce Department's conduct of new shipper administrative reviews. New shippers can ship Chinese garlic without paying cash dumping duties for the entire life of the review, sometimes from 12 to 16 months, with only posting a bond.

During 2001, there was one new shipper being reviewed by Commerce. That one shipper shipped 8 million pounds of garlic during his review. During 2002, there were three shippers in the new shipper review. They collectively shipped to the United States 42 million pounds of garlic.

The privilege not to pay cash dumping duties was given by new shippers by Congressional amendment of the dumping law in 1995, supposedly because the privilege is required by the WTO Dumping Code. In fact, the WTO does not require this privilege. Mr. Chairman, Congress should save our industry, and no doubt, other domestic industries by removing the privilege of this law. But it must be done now.

The third reason for the surge of imports is Commerce's methodology for calculating dumping margins in Chinese cases.

These are detailed in my written comments. Unless Congress' methodology is changed to reflect the reality of garlic production in China, Congress will grant zero dumping margins to all exporters in review.

The situation is desperate. Unless changes are made in all three areas, the domestic garlic industry is doomed. We have already cut our production 30 percent, and we are now to the size we were eight years ago after the first Chinese onslaught. Ask yourselves, how could 54 million pounds of garlic enter the United States from China with a 400 percent duty? Thank you, Mr. Chairman.

Mr. Wolf. Thank you.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Wolf. The next witness, Mr. Glaize.

Mr. Glaize. Thank you, Mr. Chairman.

I am Phil Glaize, the past chairman of the U.S. Apple Association, and the current chairman of the Virginia Apple Growers Association. I am a third generation apple grower from Winchester, Virginia, and manage 1,000 acres of orchards in both Virginia and Pennsylvania. We operate an apple cold storage facility and a packing operation so that we can market our apples directly to the retailers and the processors.

Apples are grown commercially in 36 States, with the majority of the crops produced in Washington State, Virginia, New York, Pennsylvania, and California. While Virginia produces both fresh and processing apples, the majority of the growers in our State produce apples for apple sauce, sliced apples for baking, and juice apples for apple juice.

Thank you for this opportunity to provide the subcommittee members with a first-hand account of a threat posed to my family, my company, and our entire industry from imports of cheap apple juice concentrate from the Peoples Republic of China.

A flood of cheap apple juice concentrate imports driven by the Peoples Republic of China is significantly reducing prices that U.S. growers receive for their processing apples. Processing apple prices are the foundation of the industry's entire price structure, and these imports are adversely affecting returns for all apple categories across the entire industry. As the price for Chinese concentrate delivered to U.S. docks fell 53 percent from 1995 to 1998, and imports of apple juice from China increased to over 2,000 percent during that period, the price paid to growers for their juice apples fell by 66 percent.

China's share of the U.S. concentrate market increased from one percent in 1995 to 18 percent in 1998. U.S. concentrate producers have been forced to drastically reduce the price they pay growers for U.S. juice apples. This has significantly harmed apple growers in Virginia and across the country. And this is important to know. Since processing apple prices are the floor of our industry's price structure, the plummeting apple juice concentrate prices have caused the value of U.S. fresh market and processing apples to fall dramatically.

In response to economic injury to U.S. producers caused by the surge in unfairly priced apple juice concentrate from China, the U.S. apple administered coalition for fair apple concentrate trade sought to level the playing field by seeking import relief under U.S. trade law. The coalition was successful, receiving unanimous ruling from the International Trade Commission in 1999. However, in November of 2002, the Commerce Department announced its decision to choose Turkey as the surrogate market economy even though the U.S. apple industry strongly favored the choice of Poland. Despite the fact that Turkey and Poland lined up as statistical equals in all concerns, Commerce seems to have overlooked the interests of our U.S. apple industry.

In written testimony submitted, I have elaborated on the reasons our industry believes Poland was the more appropriate surrogate country; however, in the interest of time, I will not go in to detail, but you do need to know two of those factors. That includes Commerce's judgments regarding the economic comparability over Poland and Turkey and the quality of data submitted by the Chinese regarding Turkey.

I continue to believe that the Commerce Department missed an excellent opportunity to provide our industry with reasonable protection from cheap imports of Chinese apple juice concentrate. Regretfully, this protection will not be in place when I harvest my crop this September.

Commerce's choice of surrogate market economy has had a harmful impact on our anti-dumping case. Selection of Turkey led the Commerce Department to propose elimination of dumping duties for five of the nine Chinese apple juice concentrate producing companies. These companies will now be free to reduce concentrate prices as low as they want without the fear of future anti-dumping consequences. Commerce's decision to choose Turkey as the surrogate market economy clearly favors Chinese producers and takes money out of the pockets of U.S. apple growers.

As an apple grower, this process was particularly troubling. The decision on which surrogate country to choose was a close call. Commerce Department was well informed about the economic harm to our industry being caused by Chinese imports. Commerce should have used this opportunity to safeguard American interests, but instead sided with Chinese apple growers, processors, and exporters.

U.S. apple growers believe that in anti-dumping cases such as ours, the Commerce Department should be an advocate for U.S. Industry when the facts allow it. For this reason, we urge the Subcommittee to consider several recommendations:

One. Establish a separate office with sufficient resources within the Commerce Department to handle anti-dumping petitions against China and the subsequent administrative reviews. Before the Commerce Department moves forward with a case, it should require a foreign exporter to assume the burden of proof by having to provide evidence that its facts are true and robust in the scope of dumping investigations. And, in the case of new shipper reviews, such shippers should have to satisfy the dumping duty deposit requirement in cash rather than a bond.

In conclusion, Mr. Chairman, the apple growers of Virginia and across the country strongly disagree with the Commerce



Department's decisions with regards to our anti-dumping case against below cost imports of Chinese foreign concentrate. We believe that the U.S. Government should instead act fairly and responsibly to support the interest of domestic industries. We are vigorously and prepared to act upon other means, including U.S. Government initiatives to keep dumped concentrate from further harming the already beleaguered U.S. apple industry.

Thank you, Mr. Chairman.

Mr. Wolf. Thank you, Mr. Glaize.

[The information follows:]

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Mr. Wolf. And Mr. Barton.

Mr. Barton. Good morning, Mr. Chairman. My name is Peter Barton. I am a fruit grower in the Hudson Valley. I actually am the Chairman of the Hudson Valley Fruit Growers Task Force that was formed pretty much for last year, which I am sure most all of you are aware of was the devastating weather events that we had. And we do thank you for coming forward and including specialty crops in the disaster bill for 2003. And we were very hopeful going into this harvest year of 2003. Unfortunately, at the end of 2002, with the ruling from the Commerce Department, I think it has taken our industry and is taking us backwards. That ruling of picking the surrogate country of Turkey over Poland will have significant impact on all the growers that I do represent.

This other market, as Phil said, is our foundation. And what we have seen over the years up until just recently is almost a nonmovement of this product. And, unfortunately, when growing a product like this that is a well valued entity that used to add to our bottom line becomes essentially a liability to us and to our operations. We have no other outlet for it except for processing factory. And if that processing factory is not taking that apply, it becomes a burden to us.

I would like for you all of to please become aware of that court ruling as to why--actually, in the ruling itself it seemed to contradict their actual criteria of the significant producer which would have led you to think it would have been Poland instead of Turkey that was picked.

Our farm itself where my family farms is 65 miles north of New York City. We are a great place for learning. We are also a great place for solitude, which was proved on September 11th and the days following September 11th. We attract quite an amount of people to our farm to pick the various crops that we have. I myself, as a direct marketer and a true ambassador of agriculture, and I communicate directly to the American consumer. And there is a concern, because I feel that agriculture in itself is in trouble. The lack of public education, understanding about agriculture is eroding our consumer base which threatens the existence of our profession. And all this is happening in my generation.

A chief food supply along with an overabundance of products from around the world has armed the consumer with a false sense of security. In my hometown, I am an 8-year elected town councilman, so I see the impacts that I have been hearing this morning throughout this whole hearing. I have the local

businesses that are no longer there contributing to our tax base. We have empty warehouses, empty storefronts. Instead, we have residential properties being built and sprawl, almost uncontrolled sprawl which, on a local level, is very hard to control with an infrastructure.

So, to bring forward, the concern I think that we are all hearing in this room today is having a major impact on our local hometowns and the way small-town politicians like myself have to address these issues. The Chinese concentrate needs to be addressed, revisited possibly in order to make my industry a viable industry in the future. And I thank you for this time.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Wolf. Well, thank you very much. And I appreciate all of your testimony. In fact, Mr. Glaize, I have the privilege of representing the Shenandoah Valley and Blue Ridge and Winchester. And as he was talking about the impact on little towns and all, I mean, from the growth and the apple orchards that have been cut down and the housing that has been replaced, I am sure it must have triggered with regard to you. I mean, I can think of apple orchards that I know I used to drive by that there are now homes. So it almost gets beyond--and this is not an issue on growth and sprawl and the issues like that. But it also does get into those issues. And the vitality of little towns and places that are very, very important to this country.

Why do you think, both of you, they picked--Turkey and not Poland? Just briefly, I mean. And we will dig into it. But why do you think they did?

Mr. Glaize. It is hard to speculate. Statistics were very close as far as their gross national product and size of the economy, et cetera. In that they were statistically the same, Turkey was slightly, lower perhaps closer to China in one of the statistics. However, they were so close that, in my point of view, of course it doesn't make sense to have chosen Turkey.

Mr. Wolf. Under the law, do they have the ability to go back and select Poland over?

Mr. Glaize. I would have to find that out for you. I believe they do.

Mr. Wolf. Mr. Vessey, do you think the Commerce Department has been your friend? Do you view it as a friendly place to go to?

Mr. Vessey. Well, I believe that certainly under the new shipper review law that the Commerce Department, that Congress needs to really change that as far as the Commerce Department, the methodology that is used to calculate these zero dumping rates is just ludicrous. So I think the Commerce Department's method of how they arrive at these is bad.

But I would like to comment one thing on--you talk about small towns. Western agriculture, we farm in the west side of the San Joaquin Valley in a little town called Coalinga. We are the largest private employer in that town and employ 600 people. That had dropped to 500, and will drop probably in half just because of this dumping order that we continue to plant less and less product. And the whole San Joaquin Valley has a

history of, between cotton that it has lost to China--I think all of western agriculture. We talk about these small commodities, garlic or apples. But western agriculture is in jeopardy. And I think that the fact that we need to look at whether you call it national security, I mean, are we going to be dependent upon a foreign source of food?

I think our safe and dependable food supply that Americans farmers produce is utmost dependable, and I don't think we should be in jeopardy of a foreign source like the oil business.

Mr. Wolf. Well, I thank you all. I would urge you also to be contacting--Mr. Glaize, contacting me and I contact him. But those of you others and the other witnesses, those before and those after, to contact your other members of the House and the Senate. I mean, this is a hearing to hopefully begin to reverse the process, but there are 435 other members of the House and there are 100 senators. So I think it is important that you vocalize and advocate. I mean. And we invited one company, and the first letter came from the man was very bitter and hostile. And not against me, but he said, I don't think anything can ever come of this hearing and, what you are doing. He said, I am so disappointed. And then he came back and apologized saying, you know, he can't make it, but he just didn't think anything would ever come of it.

And so I think it is important for you to be talking to your Senators and Congressmen, and Mr. Walsh and Mr. Sweeney are both in agreement with regard--but not just limit it to this subcommittee, but to the entire Congress. This is an opportunity. And I appreciate the NAM being here, a great institution, like that. So this is an opportunity, but just don't allow it--you haven't done your job by just coming here and testifying. Before I got elected to Congress, I was a lobbyist for Gerber Baby Food, and, you know, go out, spread the word. Speak. Go to town meetings. Go to the villages. Go when the Congressmen are back. Talk to them. Make appointments. Go, go, go, go. But just don't think that you have accomplished your goals by coming here and testifying. We will attempt to help based on a sense of fairness, but you now have to go out and advocate it. And I would urge you to--and those who are listening. I know we have got probably both sides in this audience. But to go out and make it clear to other members of the House and the Senate so that when we try to do something there is the support, if you will. But I thank all of you very much for your testimony.

Mr. Serrano.

Mr. Serrano. Very briefly. All three of you, you on the apple issue, both of you, and you on the west coast, in general, paint sort of a bleak picture about the future of food producing for this country. We are not anywhere near having most of our food imported.

Mr. Vessey. I may disagree with you, Congressman.

Mr. Serrano. No, I am asking you. Are we?

Mr. Vessey. Well, I think we are. You have 800 million farmers in China. I am also a broccoli grower. I have lost production in broccoli. The recent studies have come out that China is getting in the package salad business. We think that it is just maybe the commodity groups. But in the specialty

crop business, I think there is jeopardy. I think we are in jeopardy of not being in control of our own food source. I paint that black.

Mr. Glaize. I would like to agree with Mr. Vessey. And it is going to happen quicker in small crops fruits and vegetables than it is in the commodity crops of wheat, corn, oats. I would like to say that last night, ABC News with Peter Jennings aired something they called the making of a crisis. And for 5 minutes they talked about our food production moving offshore, particularly to China. They featured an avocado grower from California. That little news clip hit so home with me, it is unbelievable. And that is the large issue that we as farmers have got to face. I, as an apple grower, have to decide whether I should plant a tree--I don't get a thing back from my tree for 6 years. It takes that long. I don't know whether to go plant any more trees right now or not. 60 percent of the single strength juice, apple juice consumed in this country is from foreign concentrate.

Mr. Glaize. It is unbelievable that what we have received for our product in the last 4 years have gone down so far that Congress passed a market loss decision for apple growers for the first time ever and we do not even want it. We want to survive on our own, but it has gotten that bad.

Mr. Vessey. Just one more comment, Congressman. It is what we have lost are really our export business. We used to be big exporters in garlic to Europe, to Canada, to Australia. We have lost that business. Also, I think all of agriculture is concerned that we lost Japanese business. We used to export a lot of product in Japan. China has taken that business. So I think it is not just we are threatened. We already are threatened and we have lost a tremendous amount of markets out there that we no longer will ever get back.

Mr. Barton. I would like to state that that false sense of security the public has--and I think the public does need to be educated because we are almost at a crisis right now and as long as they go on with this false sense of security I do not think the awareness is going to be built enough.

Mr. Serrano. The apple sauce they buy in northern Virginia is that mostly produced in Virginia, made in Virginia.

Mr. Glaize. Thank goodness the apple sauce is. They are not importing apple sauce at this time.

Mr. Serrano. I am a New Yorker. We do love apples but, boy, do they make apple sauce.

Mr. Wolf. It is good for the industry. Thank you, Mr. Serrano.

Mr. Vitter.

Mr. Vitter. Thank you, Mr. Chairman. Thank you for leading this hearing. It is very important and I certainly appreciate your leadership and appreciate the testimony of all the witnesses.

I just wanted to quickly add during this ag discussion of a Louisiana example, which is crawfish. Chinese crawfish tail meat--and actually this is perhaps an example that highlights a slightly different problem because if you look at the history of this anti-dumping action, while there has been criticism and problems with Commerce, probably the much bigger problem is on the pure enforcement side from Customs.

The U.S. Anti-dumping duty order against imports of fresh water crawfish tail meat from China has been in place since 1987. At that original time all company specific cash deposit rates assigned in that original investigation were in excess of 90 percent ad valorem. Now those change over time with reviews and with new shipper reviews, and since that time new shipper reviews in particular have resulted in company specific ad rates, rates ranging from zero to 223 percent. Certainly in those new shipper reviews there is some concern that some of those have been dominated by fraud and are very inaccurate, so that is a concern resting in Commerce.

But again probably the biggest concern is collection of the duty, pure enforcement collection out of Customs, and there is an enormous concern that there is just no adequate enforcement collection after we have walked through the process and gotten these determinations.

Why do I say that? Well, if you just go in retail stores in Louisiana, you find the same Chinese crawfish product for about \$2.99 a pound. This is virtually the same as in 1996 when the anti-dumping case was first filed and if you look at import rates, although the levels dip slightly just after publication of the ad order in 1997, they surged after that to new record highs. So in this case, you have an anti-dumping action. You have some significant determinations by Commerce in terms of the rates that were determined, and there is criticism of some cases and some new shipper cases but basically you have significant determinations but the price is the same and import levels have surged. And so the domestic industry feels like there needs to be much greater focus and enforcement out of Customs and they have basically reached the conclusion that Customs is never going to do anything significant unless and until there is a specific line item for this enforcement because it just gets swamped. It is a tiny matter in the Customs universe and it just gets swamped by legitimate Customs antiterrorism, antidrug priorities.

So from the point of view of the domestic industry they do not think anything is ever going to result from this unless we make Customs with perhaps a specific line item enforce this because they are basically ignoring it now because it is being swamped by their bigger understandable priorities.

I just wanted to add that to the discussion and thank the witnesses again.

Mr. Wolf. Well, thank you, Mr. Vitter, and if you want to offer an amendment to the Customs markup on that, I serve on that subcommittee, we could do it at full committee.

Mr. Wolf. Mr. Honda just joined us. Whatever you want to say.

Mr. Honda. Well, thank you, Mr. Chairman. I apologize for being a little tardy here. But I really do appreciate you having this hearing, Mr. Chairman and Ranking Member Serrano. I came just to specifically make comments on an activity in my district, and that is garlic, and I understand Mr. Vessey had made a couple of great comments, one about the unfair competition, and I am here to echo his concerns and also share the fact that the imports have increased tremendously from about, what, about 3 million pounds in the year 2000 to over 54 million pounds this past year, and the total consumption of

garlic in this country is around 160 million pounds. So it is quite a big impact on our economy.

California is a State that is probably one of the largest producers of garlic, and I think that it is clearly quite an impact and we are hoping that the subcommittee will be able to look at the loopholes that have been created that are recognized by the California garlic growers. We have to close that loophole so we can have some fair trade practices, and I am here to support not only John but Mr. Christopher, who has probably one of the largest ranches in the State of California.

We welcome the Chair to our garlic festival, and I will personally be your guide and cook some of the dishes for you if you like.

Thank you, Mr. Chairman.

Mr. Serrano. For the record can you explain later about the effects of garlic on werewolves. I have never understood that.

Mr. Vessey. We promote that.

Mr. Wolf. I thank you, Mr. Honda, and I thank the panelists too and again if you can all work with Christine about that. But thank you very much.

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Thursday, May 22, 2003.

#### SECTION 421 OF THE TRADE ACT OF 1974/TEXTILES

#### WITNESSES

AUGUSTINE D. TANTILLO, AMERICAN MANUFACTURING AND TRADE ACTION COALITION (AMTAC)

WILLIAM WOLF, PRESIDENT, MOTION SYSTEMS, EATONTOWN, NEW JERSEY

Mr. Wolf. We just got another 30 minutes before a vote. So we are doing well. If we can have Mr. Tantillo from the American Manufacturing and Trade Action Coalition and William Wolf, who I want to state for the record is no relation to me that I know of. If you can limit your statements to 3 minutes, we would appreciate it very much.

Mr. Tantillo. Good morning, Mr. Chairman, and thank you very much for this opportunity to appear before your Subcommittee.

My name is Augustine Tantillo. I am the Washington Director of the American Manufacturing Trade Action Coalition. AMTAC is a group of concerned U.S. Manufacturers who have come together for one purpose, and that is to work in support of Federal trade policies designed to stabilize the U.S. Marketplace and to hopefully preserve the over 16 million manufacturing jobs that remain here in the United States.

So far this morning a good portion of the hearing has dealt with dumping and CVD cases, and I want to talk about a different issue that comes under the jurisdiction of the Commerce Department and other related agencies such as the U.S. Trade Representative and the State Department.

It is the special textile safeguard mechanism which is contained in the Accession Agreement with China. In 1997, the United States negotiated a bilateral textile agreement with the Chinese, and as part of that agreement they included a

provision that allows for the reinstitution of quotas on textile apparel shipments from China when their levels become disruptive within the U.S. Market. That provision was reaffirmed as part of the 2001 Accession Agreement and has been in place since January 1, 2002, when China actually joined the WTO.

Fortunately, Mr. Chairman, the Administration just yesterday published the procedures for utilizing the China WTO textile safeguard mechanism. Nearly 6 years after the mechanism was first negotiated, 2 years after it was reaffirmed in the Accession Agreement and 18 months after China joined the WTO, the United States textile industry finally has the rules available to them for petitioning under this safeguard mechanism.

Now what has happened during that time period, during that delay in regard to Chinese textile imports into the United States? Well, it has been nothing short of remarkable. In 2002, China grew by 117 percent in terms of their total textile and apparel exports to the United States. Since January 1, 2001, our industry has lost 206,000 workers, many in Virginia, the Carolinas, Georgia, Tennessee, Alabama. So while this massive surge is taking place, thousands of Americans are losing their jobs.

The executive branch highlighted during the accession debate that the safeguard mechanism would be there to protect against the very thing which is happening. Surging Chinese imports disrupting our markets, displacing workers, and yet the mechanism has never been used. Again, the procedures were just yesterday published. So when is a safeguard mechanism meaningless? Obviously, when it is never utilized.

Mr. Chairman, China has the potential to overwhelm our market. For the past 12 months they have been shipping textile apparel products at over 100 percent in terms of an increase over their previous shipments. Their total value of shipments to the United States is valued now close to \$10 billion. I will give you one example that you mentioned earlier, socks, hosiery.

In March of 2002 China shipped about 1 million dozen pairs of socks to the United States. Over the next 12 months, they shipped 8.5 million dozen pairs of socks. They have experienced an 800 percent increase in that one category alone and, as you said, many of these companies are owned and operated by the People's Liberation Army.

Our industry does not need any more commitments or promises. We have plenty of those. What we need is action. The government has finally published this safeguard mechanism, but if it is going to be meaningful it has to be used.

We will be petitioning the Administration to implement a safeguard in short order. If they do not, China will continue to absorb a tremendous amount of market expansion within the U.S. It is going to cost tens of thousands of additional jobs. We hope that this action will come in time to save some of the 900,000 U.S. textile apparel jobs that are left in the United States.

Thank you very, very much for this opportunity, Mr. Chairman, for your leadership in this area.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Wolf. Thank you, Mr. Tantillo.

Mr. Wolf.

Mr. William Wolf. Chairman Wolf, members of the subcommittee, I am Bill Wolf, President of Motion Systems of Eatontown, New Jersey. I thank you for giving me the opportunity to relate my very disappointing experience as the first petitioner to bring a case under the China specific safeguard mechanism known as Section 421. I am also submitting a written statement, so I will keep my comments brief.

Mr. Wolf. Your full statements will appear in the record.

Mr. William Wolf. Our company, Motion Systems, makes electromechanical linear actuators and pedestal actuators. This last product was the focus of the Section 421 case. Our largest customer used pedestal actuators in his mobility scooters. In 2001 they switched from our company to a Chinese supplier who had copied our product and then sold it for about a quarter of the price. The attached chart to the report shows that our production of pedestal actuators declined by two-thirds as the Chinese imports surged into the United States.

In response to this surge we filed a 421 petition in August 2002. After investigation, the ITC concluded that imports of pedestal actuators from China were causing market disruption and recommended that quotas be imposed. Unfortunately for our industry the President did not agree. The President denied relief in part on the presumption that our former customer would face increased costs if he had to switch from the low cost Chinese copies.

Section 421 is expressly intended to address surges in Chinese imports. The possibility that a U.S. purchaser of Chinese imports would see some increased cost is almost always going to be the case. To deny relief on this basis is to deny relief for every Section 421 case. That cannot be what Congress intended.

The President also appears to have relied upon the allegation by the U.S. importer that increased costs would be passed on to the ultimate customer. At the USTR hearing, a U.S. Importer alleged that cost savings achieved through the Chinese imports had been a saving for consumers and that by imposing relief consumers would face cost increases in the future. These claims were never verified by USTR and I believe that USTR's fact finding and information verification process in Section 421 proceedings is seriously flawed.

We presented documentary evidence to USTR showing that the U.S. importer did not lower his prices by switching to the Chinese imports. Why then would it increase prices to consumer if he switched back to the American made parts? Government documents first obtained after the USTR hearing and the President's decision show that the U.S. importer's prices to its largest customer, the VA, remain the same after he switched to the Chinese imports. He never dropped his prices.

Allowing Section 421 cases to be decided based upon the unsworn, undocumented self-serving testimony of importers grants them a virtual veto over relief.



I would also like to make a comment on how the Chinese government addressed this case. An intense lobbying campaign was launched to thwart relief to our industry. Press accounts attached to my written statement again reported that this effort reached the highest levels of the Administration and resonated in the President's decision making process. To say that I am dumbfounded by the Administration giving credence to the viewpoints of the Chinese government over the recommendation of the ITC and contrary to the will of Congress would be an understatement.

In conclusion, as it stands, the Section 421 petition is a dead duck. Maybe it can be fixed.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Wolf. Thank you both. Tell me in about 30 seconds of the lobbying effort that you are talking about. Well, who was retained? Who are the lobbyists? What did they do?

Mr. William Wolf. Well, it is Chinese officials. We asked for hearings with the U.S. Trade Rep's office, but the Chinese--the doors opened up for them.

Mr. Wolf. You could not get into the Trade Rep's office?

Mr. William Wolf. Only one hearing when they were cleaning up the documentation on it.

Mr. Wolf. Chinese had better access?

Mr. William Wolf. Yes.

Mr. Wolf. I hope you will give us some facts.

Mr. William Wolf. Those press releases are attached.

Mr. Wolf. Why do you suppose the Trade Rep's office did that?

Mr. William Wolf. Trying to keep feathers from being ruffled.

Mr. Wolf. For what reason though?

Mr. William Wolf. It was due the next week.

Mr. Wolf. Okay, well, thank you.

Mr. Serrano.

Mr. Serrano. I have no questions.

Mr. Wolf. I thank you both. If you can be in touch with Christine to see what we can do to see if there ought to be a change at the Department of Commerce in the Trade Representative's office.

Now, in fairness and balance sometimes when you advocate for and I know overstatement can sometimes take place, so we want to be balanced. We want to be fair but this has to stop. If we have to cut the budget over there, then we will have to cut the budget. It is at least the only way we are going to do it. I feel very passionate about this issue. There is only one other Member of Congress, Congressman Chris Smith, who has ever been in a slave labor camp, as I have been. I was in Tibet, where the Chinese were persecuting the Buddhist monks and nuns and throwing them into Drapchi Prison. I know there are 50 Catholic bishops that are being harassed and jailed in China today. There are 250 Evangelical House Church leaders, and for the Commerce Department officials--and I hear President Bush speak out very eloquently with regard to human rights and

religious freedom. When you put all these things together, you see the way they were with regard to the SARS, there ought to be no doubt that your Commerce Department is on your side and not on the side of the people that are putting Catholic bishops in jails, Evangelical House Church, persecuting Muslims, destroying, capturing the Pancha Lama, prohibiting the Dalai Lama from going, having organ programs that if you need a new kidney they will execute the person to sell you a new kidney and on and on and on, and so we are going to get to the bottom of it. We are going to do it. We just are. So be in touch with Christine and see if we can come up with it, but again I would say to you, and I am talking to everybody else out here, we do not want anything that is not true. We do not want anything that is not factual. We do not want hearsay. We do not want someone once said they told me this, we do not want that. We only want facts that you can prove. We do not want to damage people's reputations. Do not give us that information. We are not looking for anything like that.

I would also say you should err on the side that if there is some question we do not want it. We only want what is factual that can be proved that is actual fact. So with that to both of you, not that you are not giving us that. Do not take it personal. The same with everybody else. That is what we are looking for and we are not looking to hurt people's reputations. We are not looking to demagogue or be after people. We just want to kind of deal with this because again we are getting ready to go to the Administration witnesses. We want to create jobs. We want to get America moving again.

I cannot speak for Mr. Serrano, but I support this Administration. I probably have one of the highest records of support for this Administration in this Congress, and I want this Administration and I want President Bush to do well, but I want small towns and machinists and mechanics and moms and dads and the high tech community to do well, too. I think the one thing we have not covered enough in this hearing is the high tech industry. Some people say, well, the manufacturers are gone but we are now focused on high tech. Now I saw the statement the other day that high tech jobs are beginning to go overseas. So it is across the board and we stress manufacturing, but the problem is also heavily in high tech. You want to say something, Mr. Tantillo?

Mr. Tantillo. Just to comment on that last point. In the government's own definition of the high tech manufacturing sector, which is the leading edge of supercomputer, sophisticated electronics equipment, we had a \$13 billion trade deficit last year, and so if people want to argue that we really do not need the menial basic manufacturing jobs, where then are we going to gravitate to if even the leading edge is being decimated by China and the rest of the Far East.

Mr. Wolf. Why do not you submit to the Committee by Monday of the following week some information with regard to that you can gather and also, as we said, to the NAM to help us with regard to the questions of CRS and others? I think we should also get that data because many people do operate--I know we are losing jobs in manufacturing, but look at what we are getting in high tech and I look in my district going out Route 66 and out Dulles Access Road and the number of jobs and some

of the things the Chinese are doing this. The FBI comes before this Committee. If you would know what the Chinese government is doing with regard to American industry, particularly in the high technology, it is stealing the secrets, it is incredible. Many people in the high tech industry do not know what is actually happening to them. So you put all of these issues, and this is not FBI intelligence but you get all those things together. But if we could get that material on high tech industry we would appreciate it.

Thank you very much.

Thursday, May 22, 2003.

U.S. GOVERNMENT

WITNESSES

PETER F. ALLGEIER, DEPUTY U.S. TRADE REPRESENTATIVE  
GRANT D. ALDONAS, UNDER SECRETARY FOR INTERNATIONAL TRADE  
DOUGLAS M. BROWNING, DEPUTY COMMISSIONER OF CUSTOMS AND BORDER  
PROTECTION

Mr. Wolf. Next would be the panelists from the Administration Mr. Allgeier, Mr. Aldonas and Mr. Browning.

First witness, Mr. Allgeier first. Then Mr. Aldonas and Mr. Browning. If you could limit to 3 minutes, please, and also to the same thing with regard to the other witnesses. We would like to get you back up because sometimes this is more to make the record, to have you perhaps sit down with us, perhaps independently and also with some of the people to see what we can constructively do. I mean I am operating on the assumption that you care deeply and want to do something. So we will operate on that basis. This hearing does not end and we all go off and do whatever we are going to do. We would like to come and get you back independently and also with the other people.

First witness, and your full statements will appear in the record.

Mr. Allgeier. Okay. Thank you very much, Chairman Wolf and Congressman Serrano. We are very pleased to appear here today to discuss the Administration's perspectives on U.S. Trade with China.

We have two overall priorities, general priorities. One of course is to maximize effective market access for American businesses and farmers, ranchers and providers of services and their workers, and the second is to ensure that we deal effectively with either unfair imports, unfair trade practices by China or injurious imports through import surges.

I would just like to say a few words about the implementation of the WTO Accession Agreement by China, some of the positive points, some of our principal concerns, and then also to talk about the Section 421 that was mentioned in the previous testimony.

With respect to China's implementation progress, the focus has been on changing their laws and regulations. They have done an enormous amount of that. Secondly, to restructure their ministries dealing with trade so that those ministries operate in a way that is compatible with a more open market approach to the economy, and then third is to train and educate their

officials, both at the central level, at the local level and the State-owned enterprises about the requirements of the WTO accession of China and how to implement that.

China has made the required tariff reductions that are in the agreement. They are working on the nontariff barrier and they continue to improve their standards regime.

There also has been a number of the legal steps necessary to increase market access in the services area.

While China has made significant progress in implementing its commitments, we have identified a number of concerns. The principal concerns that we are working on at this point are one, the commitments on agriculture; two, enforcement of intellectual property rights; three, their commitments on services; and then the fourth is a cross-cutting one, which is the issue of transparency in the development of their law and in the regulations, and I think that this is particularly important to small and medium-sized businesses in the United States who do not have the necessary resources to work their way through opaque and arbitrary regulatory-legal systems. So this is a very important priority for those sorts of businesses, as is intellectual property, as you referred to just prior to our panel coming up, particularly for smaller, high tech industries, the firms that are getting started. If they lose one of their patents that can eviscerate the entire firm.

So these are immediate priorities. Let me just say a few words then about Section 421. 421 is one of the three measures that we have available to deal with injurious imports or unfair imports. I leave to Under Secretary Aldonas to discuss the element having to do with anti-dumping. We also have the special textile safeguard which was referred to in a previous panel and Section 421.

Section 421 has been controversial. There have been two cases. In those two cases, there was a very thorough, open, transparent investigation. Ultimately the President determined that the specific circumstances of those cases did not warrant providing relief, but he said very clearly in the wire hanger case that he is committed to use this mechanism when the appropriate circumstances are there.

One last comment, I cannot leave unresponded the assertion in a previous panel that the USTR gave preferred access to foreign officials over U.S. Interests. I have worked at the Office of the U.S. Trade Representative for 23 years and we do not, I will say categorically, we do not give preferential access to foreign officials over U.S. Interests when we make any sort of an investigation or when we are conducting our business, and I am confident that the record in this case will prove that to be true, that the record does prove it to be true.

So, Mr. Chairman, we look forward to working with you and other members of the committee to achieve our dual ends, dual objectives of maximum market access to American interests but effective implementation of the various mechanisms that we have to protect against injurious or unfair trade practices.

Thank you very much.

[The information follows:]

[Clerk's note.--Response from USTR is inserted at the end

of the hearing transcript.]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Wolf. Mr. Aldonas.

Mr. Aldonas. Thank you, Mr. Chairman, and first I want to say I appreciate the opportunity to appear before you. Your interest and your leadership on these issues and trade with China is enormously helpful. I think you made the point to us as recently as last week at our senior commercial officers meeting out in Reston about the importance of the Commerce Department and trade officials generally making sure that when we are overseas as commercial diplomats that we are carrying American values with us.

We take that responsibility seriously.

I want to thank the subcommittee for making sure that we have the funds available to carry that work forward. I am happy to say that we are making progress on that and look forward to working with you in the future.

Rather than go through my testimony in summary form, I just thought I might as well get right to the heart of the matter with respect to the dumping cases, talk a little bit about what the Commerce Department faces and then discuss some of the individual cases. I welcome the opportunity to sit down with you and Christine to talk through individual cases because I know, as a lawyer, you know, that these are very, very complex cases of economic litigation.

I can say categorically that the Secretary and I coming in made clear that there was only one rule that was going to apply in terms of our Administration of the dumping laws regardless of the country. That was we were going to apply the law as Congress had written it to the facts as we saw it. It was not going to be a question of whether there would be bias or any sort of hint, one way or the other, in these cases. We try and take the facts as we come to them under the balance Congress has struck in the trade law. It is the only way you can efficiently manage these cases.

As to some of the specifics, I just want to try and provide a little extra context. For example, one of the prior witnesses talked about cast iron pipe fittings, and they remarked on the fact that in two instances there were rather low dumping duties in the neighborhood of 6.34 and 7.04 percent. But at the same time, these are cases against individual companies. While those 2 companies received low margins, the rest of the companies in that case received a 75 percent margin, which does not reflect a bias on the Department of Commerce in terms of trying to provide additional access, as Peter was referring to, to the Chinese or trying to lean their way.

I have a chart which, to go from the specific to general, shows the average margins. I think what you can see is that there is both with respect to all dumping--or individual company rates in the Chinese cases, the margins are very high relative to what you see in dumping cases from other countries.

Mr. Chairman, this goes to the point you made at the outset and throughout the discussion with the other witnesses. The fact that you have higher margins in these nonmarket economy

cases, but particularly China, reflects the very things you were describing. They do not have OSHA standards, they do not have environmental costs, all those things. That is one of the reasons why they end up with a significantly higher margin than other countries. But, the pattern is not one--and this is what I wanted to illustrate--the pattern is not one where the Administration has taken office and somehow there has been a drop in the margins with respect to the dumping cases against China.

Let me discuss a couple other specifics that were raised. I know, for example, there were allegations that there were changes in methodology. More often than not it is a change in facts, not a change in the methodology.

Apple juice is a good example and an unfortunate example in my view. At the initial stage of the investigation we took the petitioner's perspective and relied on India as the surrogate country. The respondents appealed that decision to the Court of International Trade. The Court of International Trade rejected the use of India based on the facts on the record, and sent us back to the drawing board. We came up with two potential surrogates, Poland and Turkey, where, with all due respect, there was a substantial difference between the GDP per capita we are supposed to look at under the statute in term of Poland versus Turkey, Turkey being closer to China in term of its comparability. And as a consequence, given the court's oversight of that particular case, we wanted to make sure that our decision was hard wired to the facts on the record and the facts pointed us toward Turkey rather than Poland under those circumstances.

The net result was a low margin on the apple juice case. Based on our initial view of the case, we thought India actually was the better surrogate and India generally the surrogate we use in these cases, and that is why even with respect to apple juice we wanted to lean in that direction first, but on remand from the CIT we had to respond to the court's direction.

Another point to make is about potassium--and this again just goes to the level of detail in these cases. There really are a number of concerns that we share about false information that is provided in the cases with respect to China.

I know that when you heard from Augustine Tantillo--I worked with him many years with respect to transshipment in the area of textiles--you do see these things repeatedly coming up with our trade with China.

One thing ought to be clear in the case. The net result was still margins of 128 percent and 107 percent with respect to the Chinese imports. Separately we have referred when we see these cases of fraud, the actions either to Customs Service, which has been a real ally in this in terms of their investigations, or to the Justice Department. Because at the Commerce Department we have the civil authority to administer the trade laws, and I appreciate you understand this as a lawyer, but the enforcement arm on this is at Customs. When people talk about it in terms of transshipment as if it is something that is not illegal. In fact, it is Customs fraud and Customs does have both civil and criminal investigative authority to explore those things when someone has made a

material false statement with respect to the entry of the goods in the United States. Customs shares that responsibility with the Department of Justice, which I know is subject to the subcommittee's jurisdiction.

The question, at times, comes down to resources in terms of how you grapple with it. If you are a U.S. District attorney and you have a series of cases that are confronting your community that do involve a felon in possession of a gun relative to the complex investigation that is often required in these cases, you can see that you might not get immediate resources dedicated to the more complicated cases. But that is an area that I think is worth exploring. How we can better cooperate between the Department, the Customs Service and the Justice Department to make sure we are doing a better job with respect to enforcement issues.

Let me close by saying we take these issues very seriously and we take our responsibilities very seriously. We welcome the oversight. We welcome the opportunity to explain with Christine in greater detail how some of the cases worked out. Where there are issues the one thing I want to assure you, Mr. Chairman, on garlic and new shippers review is we are obliged to do what we do under the statute. It is something where it is not in our discretion to go to cash deposits rather than bonding. I also want to make clear is where we have found issues where there are problems with these new shippers, we have tried to address them.

Earlier this year I wrote to Commissioner Bonner to make sure we develop a task force between Customs and the Commerce Department to look specifically at this problem. Customs has been great to us in terms of developing techniques specific to garlic in terms of looking at mineral traces that reflect the soil content so you can determine whether it is the same shipper shipping the same garlic. They actually have done a lot to be helpful to us in trying to pursue this. I want to be clear we try to get these issues in front of the responsible party at Customs and Justice as quickly as we can.

Let me stop there, and I welcome your questions.

[The information follows:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Wolf. Mr. Browning.

Mr. Browning. Thank you, Mr. Chairman. Let me first of all thank you, Congressman Serrano, and the members of the committee and join my colleagues in thanking you for the opportunity to testify before you today.

As you are aware, preventing terrorists and terrorist weapons from entering the United States is and must be the priority mission of the Bureau of Customs and Border Protection. However, I want to emphasize that this does not mean that our traditional missions have ceased to be important to us. Our obligations in the area of trade management, processing travelers and patrolling the areas between the ports of entry are no less critical today.

At BCBP, as was the case for the Customs Service, we have twin objectives, increasing security and at the same time

facilitating legitimate trade and travel. We must protect the American economy as well as the American people. These goals can and will be achieved simultaneously and the programs we have created and are continuing to advance are designed with this express purpose in mind.

As we develop ways to make our borders more secure against terrorism, we can also develop ways to ensure the speedy flow of legitimate trade and address noncompliance with our trade laws. As part of our commitment to continuing to perform the traditional mission for which we are responsible, we help protect economic interests by enforcing anti-dumping orders issued by the Department of Commerce.

At Customs and Border Protection we are continuing to develop and refine our strategies and tactics to address the impact of dumping and subsidized imports through the enforcement of these orders.

BCBP reviews all active anti-dumping cases for data quality, trends, patterns of circumvention and noncompliance, and we develop collaborative strategies to address this noncompliance. We develop instruction for our field officers and we commence focused enforcement actions that are national in scope in response to identified or potential pattern of noncompliance. These enforcement actions are designed to focus our field resources in an effective and efficient manner to address this noncompliance.

I want to emphasize that BCBP continues to devote substantial resources to the enforcement of anti-dumping orders. As you are aware and as has been mentioned by my colleague Mr. Aldonas, an important part of the enforcement of anti-dumping orders relates to the investigation of suspected related fraud. The fraud investigations branch, formerly part of the U.S. Customs Service, is now by virtue of the creation of the Department of Homeland Security part of the Bureau of Immigration and Customs Enforcement. But it remains responsible for all matters related to trade fraud investigations stemming from BCBP enforcement activities at our ports of entry.

During a 2002 joint investigation by the Food and Drug Administration, you may be aware of this, and the legacy Customs Service into a widespread scheme to evade payment of U.S. Anti-dumping duties, bulk shipments of honey were found to be contaminated with a chemical antibody. This antibody is used only to treat life threatening infections in humans when other alternatives are not available. Criminal investigators assigned to our attache offices played a critical role in pursuing foreign leads in this anti-dumping investigation and they continue to be involved in that investigation.

I want to commend the Department of Commerce and the International Trade Commission for the vital role that they play in assisting us in our anti-dumping and countervailing duty investigations. Under Secretary Aldonas, as has been mentioned, he has initiated a multiagency task force to address matters related to the fraudulent evasion of anti-dumping duties. The Customs and Border Protection staff attended those meetings, opening on Tuesday of this week, and we look forward to participating in this effort. It is through this type of collaboration with other involved agencies that we believe will enable us to assure the best possible administration of this



problem, which we remain committed to.

Thank you, Mr. Chairman.

Mr. Wolf. Thank you very much. I thank all of you. They say there will be a vote in 15 minutes so we will try to move quickly. Maybe we can finish, maybe not.

Mr. Allgeier, if you can get us for the record all the meetings that you have had on the case that that gentleman was referring to. Those you met with his side, those you met with the Chinese, dates, times, places, law firms, Chinese officials, everyone and anyone, time, dates, and all going back to the very, very beginning. If you can get to the committee by a week from maybe Tuesday after the Tuesday after the Memorial Day, so we have it in time as we begin to look at that. And the gentleman--I do not know if he is still here--who made that case, if you can give us the dates and the times and the places that you made the comment with regard to you thought they had greater, tell us why, tell us so we can kind of compare the two.

Secondly, to all of you just kind of a yes or no with a sentence, did you feel the pain here by some of the witnesses that came before you, I mean was it--did you--I mean what are your reactions?

Mr. Aldonas. If I could, I would have to say it is similar to things I have been hearing as I have gone around the country. Mr. Chairman, we at the President's behest, have launched a manufacturing review at the Commerce Department which the Secretary has made me responsible for, and we put together field hearings across the country to meet with manufacturers.

I just came back most recently from a roundtable in Rockford, Illinois and it is a consistent story, going back to Frank Vargo's testimony. At the outset, even though China is not the whole issue in terms of our manufacturing competitiveness, there is no doubt it is a significant factor. There is no doubt that an active enforcement effort of the trade laws is due with respect to the Chinese. I think that has been the case, but we are always interested in doing more. But it is a pain absolutely.

Mr. Wolf. I would like to request that Secretary Evans and you meet several weeks after the recess with four or five of these industries.

Mr. Aldonas. Sure, happy to do that.

Mr. Wolf. Set up that meeting so he can hear, I think Secretary Evans is a good person and good man, and I would like him to hear some of this. I know you will go back and articulate it and this is a cinch. Again, this is not a human rights issue, human rights hearing, but the administration did not raise a resolution, a petition as they have in the past in Geneva on human rights because they said there had been some improvements in China.

Well, not so. As the author of ``The Religious Freedom,' 'the commission report that came out Tuesday, just felt on China it is not to the better, it is worse. The country by country report that the Department puts out is horrible. There was some political involvement here. It is a moral issue, it is a business issue, trade issue, but it is a moral question and you cannot talk one way and do something different. So I think that is why there is a sense

of suspicion and a sense of--I mean, if you are in Falun Gong you are out of the picture. They are just crushing them like that. So you can understand why there may very well be.

What would you recommend to the witnesses that have appeared here today? All three of you, what would you recommend to them.

Mr. Allgeier. Well, first of all, with respect to 421.

Mr. Wolf. With respect to their concerns that have been raised. I do not know if you were here the whole time. What would you say to them? I mean, what can they do? We are going to ask you later about this. What do you recommend to them?

Mr. Allgeier. I recommend that they and others like them, as they perceive problems, either problems of access or problems of dealing with injurious imports, come to us as early as possible and we are prepared to look forward to working with them to solve whatever particular problem it is. If it is an enforcement of their intellectual property rights, if they have got a specific infringement in China, we will work with an individual company to go after that particular problem.

Mr. Wolf. The problem there--and I appreciate that and I think that is a fair statement. When Windows 95 was available on the streets of Beijing before it was available on the streets of Washington, D.C., nothing was done.

Mr. Allgeier. We push and continue to push very, very hard on this.

Mr. Wolf. They did not even tell us about SARS. If you read today's paper--did you read today's paper?

Mr. Allgeier. Yeah.

Mr. Wolf. Did you read the point about SARS?

Mr. Allgeier. Yeah.

Mr. Wolf. Did you read they did not even tell us about SARS? I mean they arrested a Catholic bishop for giving holy communion to Congressman Chris Smith. So it is like an integrity thing. It is like we are not just--it was just not dealing--I mean, you should pull the shades from your eyes and see. He who is faithful in little things will be faithful in big things. If you are not faithful in little things, the more the likelihood you would be faithful in big things, and big things are dollars and greed, so that is what they are concerned about. And so we see SARS. We see human rights. We see they sold weapons. This is not a hearing to get into that, but they sold weapons to Iraq. You will probably find that American military who died in the effort, and I support the President's efforts, were probably killed by Chinese weapons.

You remember one night as we were all watching CNN and there was a missile that hit a shopping center in Kuwait, it had Chinese markings. There are things that I cannot talk about because they are secure. So when we look at the whole picture, if we were just a little thing, we would say, well, but we look at that, we look at this, we look at this, we look at this, it took Customs, and you were not there, Mr. Browning, maybe you were, maybe you were not, it took Customs years to get into Beijing Prison No. 1 and by the time they got in we gave them everything, the Chinese cleared the whole thing out.

Mr. Allgeier. That is why we put so much emphasis on these elements of transparency and due process in the commercial area, not that that is going to solve all the problems, but

that is an important part of trying to open up that society in the little slice of it that we are working on.

Mr. Wolf. Why do you think the trade deficit with China is \$103 billion today?

Mr. Allgeier. I think it is primarily because of macroeconomic factors.

Mr. Wolf. There is nothing we could have done or can do to deal with it?

Mr. Allgeier. I think we certainly do everything we can and should and we should intensify our efforts to make sure we have maximum access in those areas where we have comparative advantage, but we still do operate in an overall global economy where different growth rates of economies make a huge difference in terms of their receptivity to imports.

Mr. Wolf. But do you take into all the consideration the issues we have dealt with from slave labor to all the other-- what does that mean? Does that mean anything?

Mr. Allgeier. Yes, it means an awful lot.

Mr. Wolf. The artificial flowers that are made in gulags. Does that mean anything from a trade issue? Do we not discuss that? Does that have a factor we look at? Do we plug that in?

Mr. Allgeier. No, that would be a factor we look at and we do not want to be supporting unfair trade practices, not just unfair trade practices at the border and the pricing and so forth, but the conditions under which the products are manufactured.

Mr. Wolf. But in essence we really are. I know you are not knowingly doing it, and I do not know you but I am sure you are a good person.

I think I have made my point. I guess I would think you would be troubled that your citizens--we are all public servants and we serve. I would think you would be troubled that the people that you are supposed to serve or that I am supposed to serve are losing confidence, if not have lost it, are losing it. Maybe today can be a new book, new beginning, but they have lost confidence, and I think that that should be troubling to Mr. Zoellick, who we have been supportive of in this committee. We actually added more money into your budget last year above what the administration asked for.

Mr. Allgeier. I am very aware of that, and we are very, very appreciative of that.

Mr. Wolf. I say well, now, we did that, and now one specific question.

Mr. Browning. Mr. Chairman, if I might, I want to clarify something, if I could with your permission, sir.

Mr. Wolf. Sure.

Mr. Browning. Actually I was involved in the initial negotiation of the forced labor agreements with China.

Mr. Wolf. You remember the socks that I brought back.

Mr. Browning. I do remember them.

Mr. Wolf. How long did it take for the Chinese to let you in Beijing prison, roughly, just for the record?

Mr. Browning. Far too long, sir. I think it took at least a year for us to get the diplomatic status for our folks first of all to be placed in Beijing and almost a year and a half later before we got the first visit.

Mr. Wolf. When you got in what did you see?

Mr. Browning. Nothing.

Mr. Wolf. Nothing. I have the photos. I have video. We saw everything. I think the Chinese thought I was a tourist. I took videos. And so they would not let you in. They would not let you in until they cleaned it out, and you know those people that are making the socks and there were golfers on the socks, and I said to them, Do you have a lot of golf courses here. No, we do not play golf. I said, well, how come you got golfers embroidered on this sock? They were all Tiananmen Square demonstrators. Remember the guy before the tank. They were all in this one room, they were all, and many of them were still there. Now they are probably doing that in a different way.

Is Harry Wu still here? In 30 seconds what is life like in a slave labor camp? Just 30 seconds.

Mr. Wu. According to Chinese regulation, everybody forced to labor and----

Mr. Wolf. How long were you in a slave labor camp?

Mr. Wu. 19 years.

Mr. Wolf. 19 years. What time did you get up in the morning?

Mr. Wu. In the morning when the sun rise, go to the field.

Mr. Wolf. What time did you go to bed at night?

Mr. Wu. Come back when the sun setting down.

Mr. Wolf. And 5 days a week, 6 days a week, 7 days a week?

Mr. Wu. 30 days a month.

Mr. Wolf. 30 days a month. Tell us in 15 seconds, 15, because I saw Harry and he triggered it. I did not know Harry was coming, but I am glad Harry is here. Tell us the story I read in your first book where the tractor blade cuts the ground and you see the snakes and you reach in and grab the snakes. Just tell them the story, 30 seconds.

Mr. Wu. Your food is related to your work performance.

Mr. Wolf. Food.

Mr. Wu. If your work performance not good enough, they reduce your food ration.

Mr. Wolf. What did you see when you saw the snakes?

Mr. Wu. With that we have taking all kinds of food, including mouse, snake, because it is good food for our body.

Mr. Wolf. What did you do with the snakes when you saw them?

Mr. Wu. I ate it.

Mr. Wolf. Now, I do not think these guys, this young lady here from Peru, your people are not eating snakes and are not doing that. So this is what I am talking about, to look at it in a full range. I mean both of you, all three ought to read Harry's books. The point is what is triggered. It is 2\1/2\ years, so they are not going to tell you the truth. We may, there may very well be somebody in this audience, either your wife or your husband or your son or your daughter or your grandmother or your grandfather or your mother or father, that dies from SARS because the Chinese did not really shut this thing down and go out and open it up. That is what we are up to and that is their frustrations.

You all are good guys, and I stipulate that. You are, but I think we really have to make sure and I am a free trader. I voted for fast track. I voted for fast track without the administration even asking me to vote for fast track. I added

\$2 million to your budget above what the administration asked for. So we need you to come alongside us and be their advocates and help us out.

On the 421, Section 421 added to the Trade Act of 1974 by U.S.-China relations established----

Mr. Aldonas. Mr. Chairman, before you do that, one of the things I would like to come and talk to you about is how we can do a better job precisely of that because we want to make sure the door is open for folks when they have issues in China, whether it is because they want to get into the market or whether they are facing unfair competition, and we have been doing some thinking about some new models that I think would be worth coming up and chatting with you about. I worry particularly for small and medium size companies that we have been hearing from more and more. From the manufacturing side it is transactional costs. The big guys know where to find you and it is much harder for small and medium size guys. I think that is where we need to do the better job and better thinking, and we have been thinking about using some tools that we used in the former Soviet Union and materials of relatively low cost trying to improve the level of communication so that we hear about these things, including complaints about what they are facing, if it is slave labor, whatever it might be, so we get a better intake mechanism.

Mr. Wolf. I appreciate that. Do you both agree with him on this?

Mr. Allgeier. Yes.

Mr. Browning. Yes.

Mr. Wolf. I think we are not going to ask you the rest of the questions. I do not want to be confrontational, and I have never used this position to browbeat a witness or go after somebody. But I feel strongly and I figure attitude is a good attitude and what I think we ought to do is see what we can do, meet with some of the groups. I do not mean to rewrite the trade laws and do stuff, but see what we can do and maybe we all change and do different things and find out. So with that attitude if you both agree and you agree, I am not going to go through the whole line of questions.

Mr. Allgeier. We certainly would welcome the opportunity to meet with you and our colleagues and to work on these issues.

Mr. Browning. We fully concur with that. The other piece, Mr. Chairman, is we have maintained a fairly active dialogue with the trade. I myself met with folks like Frank Vargo, who go through some of these issues and we have found him a great source of information for our enforcement mission, so we welcome this opportunity.

Mr. Wolf. We will do that. I think I am not going to have any additional questions because I think we would not--I am not trying to put you in a tough spot, and I do not think we would serve any purpose and I think your attitude is appropriate. With that, I just recognize Mr. Serrano.

Mr. Serrano. Mr. Chairman, I will be brief. Just an observation and you spoke to it in terms of how I feel about it.

[Clerk's note.--Subsequent to the hearing, the following information was provided to the Committee:]

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

Mr. Serrano. You know, as the Ranking Member here, I did not select the witnesses today. It is important to note that, because to a person the witnesses who came before us today indicated a concern of dismay and pain with the way our government is reacting to their needs. Had I selected them, one could say that I stacked the meeting. And certainly, at the risk of stereotyping, which I dislike tremendously, they are not big-city leftist liberals who are coming here to bash the administration. But they all had concerns about their government not responding. So, at the minimum, what should come out of today's hearing is that those of you who are part of what we do here try to respond, especially in support of the efforts of Members like myself who support trade with China, but who never support trade with China either for it to do a number on the Chinese people or to do a number on the American people, but certainly to promote goodwill and good understanding and the flow of capital to both communities.

So I would hope that you know that this meeting was not stacked, and these are not all my cousins who spoke. I mean, there are other issues we could discuss I don't like about this administration. This one I support the administration on. And I would just hope that you would understand that these folks were legit in their comments that, hey, our government is not responding to our needs. And I thank you for your support.

And always, as the Chairman said, keep in mind that the time that he has been chairman and the time that I have been Ranking with him usually--I can't believe I am saying this being who I was and how I got started in politics--that what most agencies in this bill ask for, we give them more, hoping that everybody understands what their role should be. Thank you.

Mr. Wolf. Thank you, Mr. Serrano.

Mr. Molloyhan.

Mr. Molloyhan. Thank you, Mr. Chairman.

Mr. Chairman, since I am at the other end of this process, on the structural, some structural questions with regard to our trade structure, if I might. Quickly.

Mr. Browning, the inspector general of the Department of Homeland Security is completing a report that reportedly states that the U.S. Customs Service has failed to collect millions of dollars under the Byrd amendment, and I think that the number we are getting is that it has failed to collect as much as \$90 million. U.S. law requires the Federal Government to collect that.

I notice in some of your testimony before you talked about dealing with noncompliance. To the extent that the agency is not complying with the law, I would like for you to speak to that, and understanding that if the companies who are entitled to this money and the communities were not raising this issue, would we even know that Customs was not collecting this money as it is supposed to do under cases, let alone redistributing where it is supposed to under the Byrd amendment?

Mr. Browning. I understand.

First of all, let me say that we have, in fact, read the

IG's report. In fact, we are working very closely with them. Commissioner Bonner has given me a clear mandate that we are to address all of the shortfalls from both the management standpoint as well as the collections that are due and need to be deposited into this program.

We undertook this program with perhaps less of an investment of resources than we should have. We intend to correct that before the end of this year. I would remind you that at this point in time, over the 2 years of disbursements under the Byrd amendment, we have disbursed roughly somewhere in the neighborhood of \$550 million. The reported shortfall or error in payments is a rate somewhere in the range of 5.5 percent of that amount, absolutely not acceptable.

Mr. Mollohan. Well, that wouldn't add up. I mean, if you have distributed 500 million, and we are talking about 90 million not being collected, that is about one-sixth, isn't it?

Mr. Browning. Let me actually go to that piece, because the piece I was speaking of, there are several shortfalls in our management of the program that was identified. Again, I agree with all of the findings, as does Commissioner Bonner, and that is why we have made this a priority activity of the organization to address that. There are some \$90 million in unliquidated payments and uncollected payments. We are in the process right now of working with the Commerce Department to make sure that instructions have been issued for liquidation in each of these cases. That is going well. We are in the process of determining, to the extent that we can, whether there is sufficient bonds to cover that. All of these things are things that we are going to undertake in terms of trying to manage that program better to ensure that the collections are made and deposited into the appropriate accounts.

Mr. Mollohan. And time frame. Did I hear you say you weren't going to have this fixed until the end of the year?

Mr. Browning. We have a working group that is under way right now that is addressing all of the various pieces of the IG report.

Mr. Mollohan. But when do you think we will have this addressed adequately that we are able to perform this responsibility under the requirements of the Byrd amendment?

Mr. Browning. In terms of the overpayments, we are going out to try to collect the overpayments starting June 1 of this year. With respect to the uncollected payments, we are doing that right now. I hope to have this entire process completed by the end of this year, December of 2003.

One thing I need to remind. In some respects, the uncollected amounts represent a party's ability to exercise a statutory right to challenge our determinations, and so in that instance some of these things are tied up in litigation, some are tied up in our protest process. But to the extent that they are not, and it is simply a collection responsibility, we will move expeditiously to correct that problem.

Mr. Mollohan. Fair enough. And I appreciate your response.

Mr. Allgeier, on February 3rd, President Bush recommended repeal of the Continued Dumping and Subsidy Offset Act. I think that was in his budget submission to the Congress and the appropriation committee is looking at that. It is a lot of money. On May the 6th, I understand that in a statement

regarding the Byrd amendment before an WTO arbitrator, a statement was made, quote: Unlike other elements of the budget, the repeal of the Byrd amendment is not tied to the end of the fiscal year, and, in particular, it is not intended to be included in the appropriation acts, end of quote.

That, I think, flatly contradicts the budget's request submission. And if the administration's position is that the Byrd amendment should not be repealed, why has the Administration--why did you ask for it to be repealed without submission? Why have you not submitted an amended budget request reversing that?

Mr. Allgeier. I am not sure I fully understand the question. In terms of----

Mr. Mollohan. I think it is your quote; is it not? I mean, as I understand it, it is.

Mr. Aldonas. Maybe I could help you, Congressman. Basically in the budget document what they were doing was taking a look at all the individual items where they thought there might be changes. And, of course, in any budget they were trying to reflect what their expectations were. And I think from OMB's perspective, the idea at the time that we had lost a WTO case even on appeal with respect to the Byrd amendment meant that--  
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Mr. Mollohan. Well, you hadn't lost on appeal.

Mr. Aldonas. Actually by the time the budget came out, we had. But the point, Mr. Mollohan, is that the statement made in Geneva, at least as I understand it, is a statement that is absolutely accurate and fundamental from our perspective, which is Congress has to take the action here.

Mr. Mollohan. Wait. Obviously Congress has to take the action. Congress took the action. It passed the Byrd amendment. You have requested in the budget submission a repeal of the Byrd amendment. My question is if you don't want it repealed, you need to file an amended budget request reversing that request. And so if your position is that the Byrd amendment should not be repealed, can we expect you to file that amendment?

Mr. Aldonas. Mr. Mollohan, there is no administration position with respect to whether we are going to give you a different budget submission. But I want to go back to the statement, because what the statement was saying was that this is an authorization matter, not an appropriations measure. So with respect to the end of the fiscal year, Congress's action isn't dependent on the end of this particular fiscal year.

Mr. Mollohan. I understand what you want to go to, but what I want to go to is if it is your position that the Byrd amendment should remain and should be reinstated, you need to submit a budget request to that effect. And can we expect you to do that?

Mr. Aldonas. But what I want to be clear about, Mr. Mollohan, is the statement that was made in Geneva was not----

Mr. Mollohan. Yes, sir.

Mr. Aldonas [continuing]. A statement----

Mr. Mollohan. Excuse me.

Mr. Aldonas [continuing]. To say that we were, in fact, not going to comply with the WTO obligations.

Mr. Mollohan. Then let me get it clear on the record, sir.



Do you not--do you support your budget resolution asking for repeal of the Byrd amendment?

Mr. Aldonas. That is the President's budget.

Mr. Molloyhan. And you do not intend to file an amended budget request to reverse that position?

Mr. Aldonas. Not that I know of. But I am happy to go back and talk with the folks at OMB.

Mr. Molloyhan. One final question. There is a lot of back and forth, and this is so crucially important to the steel industry right now. With regard to the loan guarantee program the administration is in communication with several of the steel companies that operate in my congressional district that are in the process of applying for and actually being granted on a contingent basis a loan guarantee. And there is another company that--Wharton Steel--that is in bankruptcy now, and I cannot imagine it going forward with financing without this guarantee.

Mr. Aldonas. That is my understanding as well.

Mr. Molloyhan. In the budget request you have asked for a rescission of the 2003 money for the steel loan guarantee program. You have also not asked for any money for the steel loan guarantee program for 2004, and, consequently, you are not supporting the loan guarantee program. If you are serious about supporting the loan guarantee program, as, believe me, when they are listening to you talking to them on the telephone back there, they think you are serious about it, you are going to have to do three things. You are going to have to reverse your recommendation to rescind the remaining funds contained in the loan guarantee program, the 2003. You are going to have to request a reauthorization of the program for another 2 years. And you are going to have to make certain that it is fully funded for use by the U.S. Steel companies by an 2004 appropriation, which is likewise going to require a submission of an amended budget request.

And do you intend to submit an amended budget request with regard to these three things?

Mr. Aldonas. I will ask OMB about that, but I know that you had discussions with Secretary Evans with respect to this particular issue.

Mr. Molloyhan. Very good discussions.

Mr. Aldonas. And we recognize it is a difficulty, because the authorization will still be there even though there is a sunset provision attached to the steel loan guarantee program. It is true that the funding will not be there unless there is a technical fix to that.

Mr. Wolf. We will get that for the record. We are down to 5 minutes.

Mr. Wolf. Mr. Sabo, do you have a question, or do you want to submit them for the record? Do you want to come back? Whatever you want to do.

Mr. Sabo. I don't want to come back. Let me just make this comment. There is sort of this conventional elitist wisdom that trade is all good regardless of how it works in this country that permeates to a certain degree both parties. But when we operate with over a \$100 billion deficit with China in contrast to Europe, and there is sort of a ``who cares'' attitude by folks who run these programs, something is just haywire. It is

the same international trade laws that apply to us and to Europe, and somehow their self-interest survives in a fashion that ours doesn't. And I don't understand this view that is sort of this is okay. You know. It is something--I don't know the intricacies of the workings of these laws.

Something is obviously screwed up in a major fashion with how we are conducting trade policy when we have that kind of trade deficit and the rest of the world doesn't. You know, it would appear to some of us that our goal is not to have bigger markets, but to have a bigger pool of low-paid, poorly served workers in some country to get access to, not markets.

So I don't have a question. I just think that it is screwed up in a royal fashion, and at some point I would like to see some Administration take it seriously.

Mr. Aldonas. Could I take 1 second, Mr. Chairman?

Mr. Wolf. We are out of time. Go ahead.

Mr. Aldonas. Grew up in south Minneapolis. Went to Roosevelt High. You were my Congressman. And most of my friends are still working at auto jobs over in that Ford plant across the Ford Bridge in St. Paul. And I understand what you are saying.

Mr. Wolf. We are down to 3 minutes. We will just submit additional questions for the record.

Mr. Wolf. We are going to adjourn. Thank you all very much.

[GRAPHIC(S) NOT AVAILABLE IN TIFF FORMAT]

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